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The Kensington Friendly Collecting Society Limited

**109th Annual Report
of the Committee of Management
for the Year Ended 31 December 2013**

The Kensington Friendly Collecting Society Limited

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The Kensington Friendly Collecting Society Limited

**Committee of Management and Independent Advisors
for the Year Ended 31 December 2013**

Committee of Management

	Non-Executive Directors	First Election	Last Re-election
Chairperson	Peter Hawkins	June 2006	June 2013
Senior Independent Director	David McTiernan	June 1993	June 2013
	David Kirk	June 2005	June 2013
	Mark Brooks	June 2005	June 2013
	Peter McTiernan	June 2006	June 2013
	Jacqueline Allenby	June 2006	Resigned Oct 2013
	Jamie Brown (Vice Chair)	June 2011	June 2013
	Christine Scott	June 2011	June 2013
	Gary Ferguson	June 2012	June 2013
	Executive Directors		
	Philip Carey	June 2006	June 2013
	Brian Douglass	June 2012	June 2013
Chief Executive	Philip A Carey 1 Kensington Road Middlesbrough TS5 6AL		
Company Secretary	Brian H Douglass 1 Kensington Road Middlesbrough TS5 6AL		
Internal Auditor	Jacqueline Allenby 1 Kensington Road Middlesbrough TS5 6AL		
<u>Professional Advisors</u>			
Actuarial Function and With Profits Actuary	Steve Dixon Steve Dixon Associates LLP Oaks House 12-22 West Street Epsom Surrey KT18 7RG		
External Auditors	Anderson Barrowcliff LLP Waterloo House Teesdale South Thornaby Place Thornaby on Tees TS17 6SA		
Solicitors	Endeavour Partnership LLP Westminster St Marks Court Teesdale Business Park Thornaby on Tees TS17 6QP		

The Kensington Friendly Collecting Society Limited

Committee of Management and Independent Advisors
for the Year Ended 31 December 2013

Professional Advisors continued/.....

Stockbrokers

Redmayne Bentley LLP
Church House
College Square
Stokesley
Middlesbrough
TS9 5DN

Compliance Consultants

David Williams
Haven Risk Management Ltd
P O Box 19
Chipping Campden
GL55 6YX

Enquiries

Enquiries about the Society generally or about an individual's entitlement to benefit should be addressed to the Chief Executive at the above address or at philcarey@careyskens.com

The Kensington Friendly Collecting Society Limited

Chairperson's Report
for the Year Ended 31 December 2013

Welcome to the Annual Report and Accounts of Kensington Friendly Society for 2013.

As this is my first report since taking over as chairman from Mark Brooks in September 2013, I would like to place on record the thanks of all those associated with the society for all Mark's hard work and dedication throughout his tenure. The years throughout which Mark was chairman proved some of the most challenging for the organisation, and it is largely due to his commitment and leadership that the Society is in the healthy position it is today.

2013 has again been a challenging year for the Society, due largely to the continuing uncertainty of the economy which, despite rumours to the contrary, continues to have an effect in our region. The Society maintains a healthy solvency position which, due to continued cost cutting measures and long term investment strategies, will hopefully bring about further growth in years to come. In an effort to protect the Society's solvency position and seek out better returns on our investments, it has again been decided not to award reversionary bonuses to any policies this year, though terminal bonuses, which were increased last year, remain unchanged. Hopefully, we will see the benefits of this decision come to fruition over the next and coming years and be in a position to reverse this decision very shortly.

A big vote of thanks must again go to the agents and staff of the Society, as it has been they who have been at the forefront of many of the changes made, not least the retail distribution review, despite which, they continue to promote the Society's products with commitment and enthusiasm.

I would like to thank my colleagues on the Board for their continued support and commitment to myself and the Society, all our staff for their continued hard work and dedication and the society's external advisors for their expert contribution.

The Board of the Kensington Friendly Society believes that we are well placed to continue to act for the good of all its members and believes that we are well placed to continue to offer a prosperous future.

Peter Hawkins

8 May 2014

The Kensington Friendly Collecting Society Limited

Chief Executive's Report
for the Year Ended 31 December 2013

In 2013 changes in the remuneration structure for the Society Representatives were introduced. I would like to thank the Society representatives for their cooperation in helping to reduce the cost basis of the Society. In the longer term these and other employment cost savings will feed through to help reduce the expense overrun and generate better returns for members.

The solvency position of the Society has remained relatively similar to the previous year end. This enabled the Board to maintain the improved terminal bonuses that were declared in 2012. The Board has not declared a reversionary bonus for this year. The Board is mindful that in 2008 and 2011 periods of market volatility meant that equities had to be sold to maintain solvency. The Board wishes to maintain capital resources until the Society's investment portfolio is robust enough to survive similar market corrections without being forced sellers.

During the year Steve Dixon Associates have completed a significant piece of work on revised premium rates for existing products and new products such as a with profits ISA. This work addressed some of the inequities of the current rate structure but has also highlighted challenges to ensure that the new rate tables remain fair to all policyholders. The Board is working on these issues and it is hoped that the new rates will be implemented in 2015.

The Board also commissioned a program to establish a realistic understanding of the Society's free paid up liabilities. This has been an excellent piece of work and a lot of progress has been made in establishing contact with many of the free paid up members. This work will continue in 2014.

The sales performance for 2013 was good with a 10% increase in the volume of new business. The disappointment is the number of policy exists which has contributed to only a modest increase in premium income. The economic improvement at a national level has not been replicated on Teesside where unemployment remains significantly higher than the national average. This and cuts in welfare spending mean that members have many challenges in managing household budgets.

Finally I wish to express my thanks to the Board, Staff and external advisors for all their help over the last year and in particular to Ronnie Brown who retired as Internal Auditor after many years of loyal and dedicated service to the Society.

Phil Carey

8 May 2014

The Kensington Friendly Collecting Society Limited

**Report of the Committee of Management
for the Year Ended 31 December 2013**

The Management Committee present their annual report, together with the audited financial statements of the Society for the year ended 31 December 2013. The Committee of Management Members during the year are those shown on page 1.

Society membership

	Number of Members	Total Policies
Live	6,721	16,443
Live including Free Paid Up	8,666	18,945

Business Objectives and Activities of the Society

The Society is an incorporated non directive Friendly Society. Its core business objective is to provide financial services products to its Members with a home collection service. In accordance with the Friendly Societies Act 1992, the Committee of Management can confirm that all activities carried on during the year by the Society are within its powers.

In the achievement of this objective the Society has the following aims:

- To treat the members of the Society fairly and equitably to ensure that they get the outcomes they expect.
- To offer assurance products that allow current and future members to make provision for savings and funeral expenses through a home collected service provided by Society representatives. The Society is committed to providing financial inclusion to the people of North Yorkshire and South Durham.
- To ensure that members' funds and investments are maximised and that they are administered equitably and securely. Ensure the present and future viability of the Society and maximise the use of financial resources for the benefit of the Members.
- Equal opportunities. It is the Society's policy to treat job applicants and employees in the same way, regardless of their sex, race, ethnic origin, religion, age, sexual orientation, marital or parental status or disability. The Society is committed to recruiting, developing, progressing and training employees on the basis of their individual aptitude, competencies and performance.
- Health and safety. The Society is committed to maintaining high standards of health and safety. We can report that there were no significant accidents involving staff or visitors during the year.
- Corporate social responsibility. The Society is aware of the environmental issues facing the world and whilst the Society operates from a single building and does not have a significant impact on the environment it does take its responsibilities seriously. At all times the executive officers consider the environment in the purchasing of materials at 1 Kensington Road.

In pursuing these objectives the Society will ensure that the Society adheres to the Principles laid out by the Financial Conduct Authority.

Business Review

- The Management Committee is convinced that home collected insurance is not only viable but also a much-required need, particularly for low earners and the unemployed. The Committee of Management acknowledges that this can be perceived to be an expensive form of distributing and collecting premiums from Members. However the Committee of Management is firm in the belief that our Members prefer this form of paying their premiums. The Committee of Management is aware of the findings of the National Consumer Council on basic banking and its conclusion that the less well-off will continue to prefer cash based budgeting until bank accounts are more flexible in meeting the financial requirements of low income individuals;

“The advantages of account-based money management for those on low incomes include the certainty that payments will be made and the potential cost savings that come with being able to pay for goods and services by direct debit. However, monthly direct debits, which require payment to be made on a set date, do not meet the needs of many people on low incomes. Weekly, rather than monthly, budgeting remains their preferred option and is an essential component of maintaining financial discipline and control.”

The Kensington Friendly Collecting Society Limited

**Report of the Committee of Management
for the Year Ended 31 December 2013**

Business Review continued/.....

- Steve Dixon of Steve Dixon Associates LLP performs the functions of Actuarial Function Holder and With Profits Actuary. Fees paid to Steve Dixon Associates LLP are disclosed in note 8 to the financial statements.
- As at the 31 December 2013, the Society had in the opinion of the Actuarial Function Holder the required solvency margins prescribed in section 48(2) Friendly Societies Act 1992.
- The Society made no political donations during the financial year and one charitable donation of £100.
- The Society is a member of the Association of Financial Mutuals (AFM).
- During the year the Society maintained liabilities insurance cover of £2 million for its Management Committee and other officers.
- The Society aims to achieve high standards of integrity and fairness in its dealings with Members and any complaints are dealt with due care and sensitivity. Complaints are investigated thoroughly and impartially as per the Society's dispute and complaints procedures and access to an independent adjudicator is available through the Financial Ombudsman Service Bureau Ltd. Members can also contact the Senior Independent Director to resolve issues by e-mail (david.mctiernan@ntlworld.com)

Financial Review of 2013

The Committee of Management is encouraged that there remains a market for the Society's products and services. A 10% increase in annualised premiums for new business to £102,427 has been achieved together with a small overall increase in total premiums received over the year.

The markets that the Society operates in are still affected by the recession and the welfare reforms. The Committee believe these factors have contributed to the increased level of policy claims during the year (See Note 5).

The Society is aiming for premium growth across the current range of products to both existing and new customers through the current agency network and the development of new agencies.

During the year the Society began an investment strategy designed to increase member returns over the longer term by re-introducing equities into the investment portfolio. At the year end the portfolio consisted of 87% (2012: 100%) fixed interest and 17% (2012: Nil) equities. The re-balancing of the equities has to be managed in a cautious way in order to not overly risk members' funds and maintain the solvency requirements of the Society. The increasing confidence in the economic recovery over the year has resulted in the reduction in Gilt prices and as a result of the requirement to maintain a high level of fixed interest securities for solvency purposes the overall return for the year was -3.88% (2012: +2.58%).

The Committee of Management are currently in the middle of a programme of reviewing the cost base of the Society and have made some initial progress in 2013 of controlling overall costs.

The Committee of Management has not declared a reversionary bonus for 2013 as it wishes to maintain free capital to assist with the re-balancing of the portfolio to produce increased member returns over the longer term. The Fund for future appropriations has increased by £143,955 (2012: reduction of £106,334)

Corporate Governance

The Committee of Management of the Kensington Friendly Collecting Society is committed to business integrity and high ethical values. As an essential part of that commitment the Committee of Management supports high standards of corporate governance and has a policy of seeking to comply with the Annotated Combined Code for Mutual Insurers.

The Kensington Friendly Collecting Society Limited

**Report of the Committee of Management
for the Year Ended 31 December 2013**

Compliance with the Annotated Combined Code for Mutual Insurers

The Kensington is committed to a high standard of corporate governance. It is classed as a small Society under the Annotated Combined Code for Mutual Insurers. It reports the following exceptions to the code for the period ending 31 December 2013.

- The Committee do not run formal member forums as they believe that the nature of the home collection service, together with the Member Relations Policy (see below), ensure that close links are maintained with the members and issues arising can be appropriately addressed.
- The Remuneration of the Executive Directors do not have formal performance related elements and the Remuneration Committee do not formally assess remuneration relative to other organisations. The remuneration of the Executives is set by the Remuneration Committee with reference to the overall performance of the Society and the individual together with the overall economic conditions relevant to the Society and the area that it operates in. The Committee believe that this method is appropriate to the size and complexity of the Society.
- The Company Secretary, an Executive Director, serves on the Audit and Risk Committee as the Committee believe that his experience of auditing and other financial issues will benefit the work of the Audit and Risk Committee.

Relations with the Society's Members

Under the leadership of the Senior Independent Director a Member Relations Strategy has been established. The full details of this are available on the Society's website. The Senior Independent Director has visited members at their homes and attended some of the Society representative meetings where many operational issues affecting members' interests are discussed. The Society is distributing summary financial information to members via the Society representatives at least twenty working days before the AGM.

The Committee of Management

The Committee of Management during the year comprised eleven Members, nine of whom are Non-Executive Members.

The respective job descriptions of the Chairman, the Chief Executive and the Company Secretary are set out in writing and have been agreed by the Committee of Management. Copies are available on the Society's website. The Committee consists of members that have a broad range of business experience and skills. Short biographies of the members are set out on pages 13 and 14.

Chairperson

Mark Brooks was elected as the Chairperson of the Society in September 2009 and served as Chairperson until September 2013. During his term of Chairperson Mark did not hold any other non-executive role and was able to devote sufficient time to his role as Chairperson.

Peter Hawkins was elected Chairperson in succession to Mark in September 2013 and does not hold any other non-executive role and is able to devote sufficient time to his role as Chairperson.

The Chairperson is responsible for the leadership of the Committee of Management and is committed to working for the Society for approximately 20 days per annum.

Senior Independent Director

David McTiernan was elected by the Board as the Senior Independent Director with effect from September 2011. David takes the lead role in the performance evaluation of the Chairman. David also collates Board Members opinions to express concerns or get items on to the agenda other than through the Chairperson or the Chief Executive.

Chief Executive

Philip Carey is Chief Executive of the Society and has responsibility to the Committee of Management for the leadership and management of the day to day operations of the Society.

The Kensington Friendly Collecting Society Limited

**Report of the Committee of Management
for the Year Ended 31 December 2013**

Election and re-election

All Committee Members are required to be elected by the Society's Members at the first annual general meeting after their appointment by the Committee of Management. Subsequently all Committee Members are subject to annual re-election. All current Committee members are offering themselves for re-election at the Annual General Meeting. Following the annual performance evaluation the Chairman confirms that each member remains an effective member of the Committee and therefore recommends that they should be re-elected.

External Memberships

With the specific approval of the Committee of Management in each case executive Committee Members may accept external appointments with other companies and retain any fees paid to them. Philip Carey is Managing Partner of Careys Consumer Credit. This was approved by the Committee on his appointment.

Non-Executive Committee Members

The Non-Executive Members constructively challenge and help develop proposals on strategy. They bring strong independent judgement, knowledge and experience to the Committee of Management's deliberations. The independent Members are of sufficient calibre and number that their views carry significant weight in the Committee of Management's decision making.

Independence

The Annotated Combined Code for Mutual Insurers recommends that at least half of the Committee of Management excluding the Chairman should comprise of independent Non-Executive Members. It also considers that Members of the Committee of Management of the Society who have served longer than 9 years are not to be considered as independent unless the Society can explain why they can be regarded as independent. The following establishes the reasons why the Committee of Management considers that David McTiernan remains independent in spite of his service on the Committee of Management exceeding nine years and why he should be re-elected at the AGM on 11 June 2014. The Committee of Management consider that all the Non-Executive Directors as set out on page one are Independent.

David McTiernan

David McTiernan has now served on the Committee of Management for twenty one years. However it is the Committee of Management's opinion that David McTiernan remains independent notwithstanding his length of tenure as there is no evidence that this is adversely affecting his integrity or independence. The Committee considers that the benefits of David McTiernan staying as an independent Committee member outweigh any of the potential risks. David is an experienced member of the Board and makes valuable contributions on all the committees he serves but particularly on matters regarding finance and building issues. David is a forthright Committee member and when he makes comments they have been well thought through and are valuable. He will challenge the Executive where he considers it necessary. We consider that he maintains his independence as a Committee member and that his contribution is too valuable for the Society to lose. It is therefore intended to keep David McTiernan on the Committee for the foreseeable future subject to annual review.

How the Committee of Management operates

Meetings of Non-Executive Committee Members

The Non-Executive Committee Members meet at least once a year as a group and as and when required. Occasionally during Committee of Management meetings Executive Members are requested to leave the meeting room for the Non- Executives to discuss matters.

Kensington Friendly Collecting Society Limited

Report of the Committee of Management for the Year Ended 31 December 2013

Terms of Appointment

Subject to satisfactory performance evaluation, Non-Executive Members are appointed for an initial period of three years from commencement of appointment. Before the third and sixth anniversary of the Non-Executive Members first appointment the member will discuss with the Committee of Management whether it is appropriate for a further three years to be served. The re-appointment of Members who have served for more than nine years will be subject to annual review. The letter of appointment of the Non-Executive member is available on the member information section of the Society's website. From 2012 all Non-Executives are re-elected on an annual basis to comply with the Annotated Combined Code for Mutual Insurers.

Time Commitment

The Committee of Management is satisfied that each of the Non-Executive Members commits sufficient time to the business of the Society.

How the Committee of Management operates

Committee of Management Meetings

The Committee of Management met four times in 2013. The table below shows Board member attendance at all committees.

	Committee of Management	Finance & Investment	Audit & Risk	Remuneration & Assessment	Nomination
Attendances possible	4	4	3	1	1
David McTiernan	3	4	N/A	1	1
David Kirk	4	N/A	3	1	1
Mark Brooks	4	4	N/A	1	1
Jacqueline Allenby	3/3	N/A	3	1	N/A
Peter Hawkins	4	4	N/A	1	1
Peter McTiernan	4	N/A	3	1	N/A
Philip Carey	4	4	N/A	N/A	1
Christine Scott	4	N/A	3	1	N/A
Jamie Brown	4	N/A	3	1	N/A
Gary Ferguson	3	4	N/A	1	N/A
Brian Douglass	4	4	3	N/A	N/A

Society Secretary

Following a review by the Committee of Management the role of Chief Executive and Society Secretary were split in May 2012 and the roles are now carried out by separate people. The Society Secretary, Brian Douglass, is responsible for advising the Committee of Management through the Chairman on all governance matters. The Members have access to the advice and services of the Society Secretary.

Committee of Management Responsibility and Delegation

The specific responsibilities of the Committee of Management are set out in the Society's handbook. These include setting long term objectives and corporate strategy, approving an annual budget, compliance plan, investment plan, and Committee of Management appointments, reviewing systems of financial control and risk management and approving policies relating to Members remuneration. The full terms of reference for the Committee of Management are available on the Society's website.

Kensington Friendly Collecting Society Limited

Report of the Committee of Management for the Year Ended 31 December 2013

Committee of Management Responsibility and Delegation continued/.....

The Committee of Management has delegated certain responsibilities to the various sub Committees, the key sub Committees being the Remuneration Committee, the Audit and Risk Committee, the Nomination Committee and the Finance and Investment Committee. Further information is provided below and on the Society's website. The Non-Executive Members receive papers and reports in a timely manner in preparation for the Committee of Management and other Committee meetings. The papers are supplemented by other relevant information when applicable or requested.

Independent professional Advice

Committee Members are given access to independent professional advice at the Society's expense when the Members deem it necessary in order for them to carry out their responsibilities.

Insurance Cover

The Society maintains an officers and directors liability insurance with a cover limit of £2 million.

Committee of Management Effectiveness

The Committee of Management has established a formal process led by the Chairman and the Senior Independent Director for the annual evaluation of the performance of the Committee of Management, its sub Committees and the individual Members. The Members are aware that their performance is subject to annual evaluation.

Induction and Continuing Professional Development

The Kensington has a policy and a programme for induction and continuing professional development. The induction process is tailored to meet the guidance note for mutual insurers written by the Institute of Chartered Secretaries and Administrators.

Throughout their period in office Board Members are continually updated on the Society's business, the competitive and regulatory environment in which they operate and other changes which affect the Society and the market in which it operates. This is provided in written briefings and meetings with the executive and from meetings with the Society's advisors. In addition Board Members participate in structured continued professional development provided by David Williams of Haven Risk Management.

Members are also advised on their appointment of their legal and regulatory responsibilities and other duties and obligations as a member of a company. They are briefed when issues arise which affect the legal and governance requirements of the Society in relation to their own position as Members.

Internal Control

The Annotated Combined Code for Mutual Insurers requires that the Society reviews at least annually all material internal controls including financial, operational, compliance, regulatory, and risk management systems.

The Committee of Management has overall responsibility for the Society's systems of internal control and for regularly reviewing the effectiveness of those systems. The primary responsibility for the operation of these systems is delegated to the executive. Such systems can only provide reasonable but not absolute assurance against material misstatement or loss. Key control procedures are designed to manage rather than eliminate risk and can be summarised as follows:

Strategy and Financial Reporting

The Society performs an annual strategy review and budgeting process. The Chief Executive reviews strategies and budgets and the Committee of Management approves the overall budget.

As part of its normal responsibilities the performance of the executive in meeting its budget is reported on at quarterly Committee of Management meetings, the Finance and Investment Committee and the Audit and Risk Committee.

Kensington Friendly Collecting Society Limited

Report of the Committee of Management for the Year Ended 31 December 2013

Internal Control continued/....

Organisational Structure and reporting Procedures

The Society has an established organisational structure with clearly stated lines of responsibility and reporting authorisation procedures in respect of matters such as purchase commitments, capital expenditure, and investment limits.

Control environment

Financial controls and procedures are considered as part of the Society's on-going risk assessment process.

Risk Assessment

Management has responsibility for the identification of risks facing the Society and for putting in place controls and procedures to mitigate and monitor those risks. A formal risk assessment process has been established, the results of which are reported to the executive Members and the Committee of Management. Key risks, mitigating controls and required actions are identified and monitored by the executive Members and the Audit Committee.

Reviewing and Monitoring the Effectiveness of Internal Controls

Controls are monitored by management review, internal audit, the executive Members and the Audit Committee. Serious control weaknesses (if any) are reported to the Audit & Risk Committee as appropriate.

Committee of Management sub Committees

The terms of reference for the Audit and Risk, Remuneration, Nomination, and Finance and Investment Committees are available on the Society's website.

Audit & Risk Committee

During 2013 the Audit & Risk Committee met three times and comprised the following Members:

David Kirk - Chairperson
Peter McTiernan
Jacqueline Allenby
Jamie Brown
Christine Scott
Brian Douglass

The Annotated Corporate Governance Code for Mutual Insurers requires the Committee of Management to be satisfied that at least one member of the Committee of Management has recent and relevant experience. The Committee of Management has considered this requirement and concludes that they believe that this requirement is met and that the academic, business and financial experience of the Members as a whole enables the Committee to fulfil its terms of reference in a robust and independent manner. The Committee as a whole has the opportunity to meet privately with the internal auditor and external auditor at any time. The internal auditor attended every meeting during 2013.

The Committee is authorised by the Committee of Management to seek any information that it requires from any employee and to obtain at the Society's expense legal or professional advice on any matter within its terms of reference and to call any employee to be questioned at a meeting of the Committee as and when required.

The Committee works on a structured risk based programme of activities focused to coincide with key events of the annual financial reporting cycle and other associated risks.

Kensington Friendly Collecting Society Limited

**Report of the Committee of Management
for the Year Ended 31 December 2013**

Activities in 2013

The Audit & Risk Committee met three times in 2013 and discharged its responsibilities by:

- Review of the Society's progress on meeting Treating Customers Fairly obligations.
- Reviewing the Society's draft financial statements.
- Reviewing and approving the internal audit plan and resources for the internal audit function. The internal audit plan is constructed taking a risk based approach with the review cycle ensuring that financially material operations are reviewed annually and all activities are reviewed at least once every three years.
- Considering internal audit reports and actions taken to implement the recommendations in those reports.
- Reviewing the results of the risk assessment process.
- Reviewing the Society's system of internal control and its effectiveness and reporting to the Committee of Management on the results of that review.
- Reviewing the performance of the Society's external audit function and recommending to the Board whether or not the firm should be proposed for re-appointment at the following AGM.

Remuneration Committee

The Committee comprises of all Non-Executive Members. It is chaired by David McTiernan the Senior Independent Director (SID). It meets at least annually and met once during the year. The terms of reference are available on the Society's website. Its principal function is to review the performance of the Executive directors and to set their salaries for the forthcoming year.

It is the Society's policy that the notice period of executive Members should not exceed one year. Currently the Chief Executive has a notice period set at 9 months.

Nomination Committee

This comprises the following:-

David McTiernan - Chairperson
Mark Brooks
Peter Hawkins
David Kirk
Philip Carey

Its terms of reference are available on the Society's website. It met on one occasion during 2013. No new Board members were appointed during 2013. The Society has not used an external search consultancy in the recruitment of new Board members or the appointment of a new Chairman preferring to source candidates via alternative and more cost effective methods such as referral by existing Board Members, professional advisers and business contacts.

During the year the Committee of Management formally introduced a policy on Equality and Diversity which states "The Society is committed to a policy of equal opportunities for all and shall adhere to such a policy at all times.

The Society will treat everyone equally irrespective of sex, sexual orientation, gender reassignment, marital or civil partner status, race, colour or belief, nationality, ethnic or national origin, disability or age, and places an obligation upon all employees to respect and act in accordance with the policy.

The principles of non-discrimination and equality of opportunity also apply to the way in which staff treat visitors, clients, customers, suppliers and former staff members.

Kensington Friendly Collecting Society Limited

Report of the Committee of Management for the Year Ended 31 December 2013

Nomination Committee continued/...

The Society shall not discriminate unlawfully when deciding which candidate is considered for a vacancy or in any terms of employment. The Society will ensure that each candidate is assessed only in accordance with the candidate's merits, qualification and ability to perform the relevant duties required by the particular vacancy".

The Committee of Management is not aware of any issues that have arisen as a result of the introduction of this policy.

Finance and Investment Committee

This comprises the following:-

Mark Brooks – Chairperson until September 2013
David McTiernan
Peter Hawkins – Chairperson from September 2013
Philip Carey
Gary Ferguson
Brian Douglass

It met on four occasions during 2013. Its terms of reference are available on the Society's website. During 2013 the Committee reviewed the Society's investment strategy. Its main activity is to ensure that the executive is performing to budget and target and monitor the investment performance of the Society's brokers Redmayne Bentley.

Committee of Management Biographies

Mark Brooks Age 41

Mark was elected onto the Committee of Management of the Kensington Friendly Society at the 2005 AGM and became Chairman of the Society in September 2009. Mark served for five years with the Audit and Risk Committee before moving to the Finance and Investment Committee. Mark lives in Middlesbrough and works in the chemical industry on Teesside and has been involved in the chemical business for the past 21 years.

Peter Hawkins Age 56 - Chair

Peter was elected on to the Board in June 2006. Peter owns and manages his own cleaning company employing over 120 staff. Peter serves on the Full Board and the Finance and Investment Committee. Peter became Vice Chair in September 2011 and was elected Chair in September 2013.

David McTiernan Age 73 - Senior Independent Director

David graduated from St. Andrews University with a degree in Physics and Chemistry in 1963 and qualified as a Teacher in 1964. David spent the next three years in industry in Australia and returned to the U.K. in 1968 to set up a Roofing Contracting business using specialist bituminous products which David helped to develop with the Chief Chemists of BP and later The Total Oil Company. David retired from the business in 2003 but has since worked as a consultant. David has been a member of the Committee of Management of the Society since March 1993.

David Kirk Age 62 - Chair of Audit and Risk

David is a retired Police Officer where he specialised in emergency planning, transportation of dangerous chemicals and health and safety. David was elected onto the committee of Management in 2005. David has been the Society's Senior Independent Director but relinquished this role when he was elected as Chair of the Audit and Risk Committee in 2011.

Phil Carey Age 49 BA (Dip PFS) - Chief Executive

Philip has been employed by the Society since 1987. He started work with the Society as a clerk, then as a Society Representative, becoming Sales Manager in 1992. He was appointed Chief Executive in June 2004 and elected onto the Committee of Management in 2006.

Kensington Friendly Collecting Society Limited

**Report of the Committee of Management
for the Year Ended 31 December 2013**

Committee of Management Biographies continued/....

Jacqueline Allenby Age 51

Jacqueline was elected on to the Board in 2006. Jacqueline worked as an Area Business Standards Manager, an audit role covering all the branches in Teesside for the Halifax Plc prior to retiring in 2013. Jacqueline served on the Full Board and the Audit and Risk Committee prior to her resignation in October 2013.

Peter McTiernan MRICS Age 57

Peter was elected on to the Board in June 2006. Peter is a chartered surveyor. Peter serves on the Full Board and the Audit and Risk Committee.

Jamie Brown Age 40 - Vice Chair

Jamie joined the Committee in 2011. After obtaining a degree in Geology from Manchester University, Jamie was employed as a Geologist in oil exploration before re-training and qualifying as Solicitor in 2002. He is now a Partner in a firm of business lawyers based in the Tees Valley specialising in Commercial property transactions and Environmental law. Jamie serves on the Full Board and the Audit and Risk Committee.

Christine Scott Age 52

Christine was co-opted on to the Committee of Management in November 2010. Christine spent 23 years in local government finance and is an Associate Member of the Chartered Institute of Management Accountants. During her time in local government Christine for a number of years held corporate and strategic financial planning roles at a senior managerial level. Christine serves on the Full Board and the Audit and Risk Committee.

Gary Ferguson Age 54

Garry joined the Committee in 2011. Gary lives in Middlesbrough. He left the local steel industry in 1985 to work in financial services as an agent with the Prudential based in the Middlesbrough office. He left the Prudential in 1991 to become an Independent Financial Adviser (IFA) and formed a partnership with a couple of local IFA's. In 1992 he left the partnership to start his own business and since then has been based in the offices of a firm of local accountants as a general IFA dealing with Pensions, Investments, Life Assurance and Mortgages. Gary serves on the Full Board and the Finance and Investment Committee.

Brian Douglass Age 48 BA (Hons) FCCA - Company Secretary

Brian joined the Society as Company Secretary in May 2012. He graduated from Teesside University in 1988 with a degree in Business Studies and qualified as an Accountant in 1996. He is a Fellow of the Chartered Association of Certified Accountants. Brian worked in the accountancy profession on Teesside for 22 years and latterly held the position as partner in a local firm of accountants. Prior to joining the Society Brian worked within the Finance Department of a local professional Sports Club. Brian was elected to the full Board at the 2012 AGM. He also serves on the Audit and Risk Committee and the Finance and Investment Committee.

Kensington Friendly Collecting Society Limited

**Report of the Committee of Management
for the Year Ended 31 December 2013**

Statement of the Committee of Management's Responsibilities

It is the responsibility of the Committee of Management to prepare financial statements for each financial year which give a true and fair view of the assets, current liabilities, resulting balances and income and expenditure of the Society for that period. In preparing the financial statements, the Committee of Management is required to:

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

The Committee of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and to enable it to ensure that the financial statements comply with the Friendly Societies Act 1992. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

In addition, the Committee of Management considers that the annual report and accounts, 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.

Auditors

In accordance with Section 72 of the Friendly Societies Act 1992, a resolution is to be proposed at the annual general meeting for the reappointment of Anderson Barrowcliff LLP as auditors of the Society.

On behalf of the Committee of Management

B H Douglass Company Secretary

Date: 8 May 2014

Kensington Friendly Collecting Society Limited

**Independent Auditors' Report to the Members of the
Kensington Friendly Collecting Society Limited**

We have audited the financial statements of the Kensington Friendly Collecting Society Limited for the year ended 31 December 2013 which comprise the Income and Expenditure Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the Committee of Management and auditor

As explained more fully in the Committee of Management's Responsibilities Statement set out on page 15, the Committee of Management is responsible for the preparation of the Society's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Committee of Management; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Committee of Management to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, of the state of the Society's affairs as at 31 December 2013 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Practice; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

Audit commentary

Without modifying our opinion, we highlight the following matters that, in our judgement are likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures.

Our assessment of risks of material misstatement

We have identified the following risks that we believe to have had the greatest impact on our audit strategy and scope:

- the integrity of the input data and application of suitable methodology, modelling processes and assumptions in the calculation of the Society's long term technical provision liabilities;
- revenue recognition including the timing, completeness and accounting of premium income; and
- the risk of management override of internal controls. International Standards on Auditing (UK and Ireland) state that this risk must always be treated as significant.

Kensington Friendly Collecting Society Limited
Independent Auditors' Report to the Members of the
Kensington Friendly Collecting Society Limited

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatement on our audit and the financial statements. For the purposes of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

We also determine a level of performance materiality which we use to determine the extent of testing needed 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.

When establishing our overall audit strategy, we determined an overall level of uncorrected misstatement that we judged would be material for the financial statements as a whole. We determined planning materiality for the Society to be £30,000 which is approximately 0.5% of total assets.

On the basis of our risk assessment, together with our assessment of the Society's overall control environment, our judgement is that the overall performance materiality level should be 90% of planning materiality, namely £27,000.

However, given the nature of the Society's activities and taking into account the users of the financial statements, we consider this performance materiality level to be too high for the Income and Expenditure Account. Accordingly therefore, we set a lower planning performance materiality of £10,000 specifically for the Income and Expenditure Account. Our objective in adopting this approach is to ensure that total detected and undetected audit difference that would affect the Income and Expenditure Account do not exceed this performance materiality level.

At the conclusion of the audit we re-assess the materiality levels based on the audited financial statements and then compare this with the planning materiality. The result of this assessment showed there was no significant change to final materiality and we are satisfied with the levels set at the planning stage.

An overview of the scope of our audit

Our audit scope focussed on the principle activities of the Society which are undertaken from one location.

We scoped our responses to the significant risks identified above in the following ways:

- we engaged the services of suitably qualified and experienced 'Reviewing Actuary' to review and challenge the methodology, assumptions and calculations of the Actuarial Function Holder's long term business provision liabilities. We also tested the integrity of the actuarial data extracted from the Society's policy data;
- we carried out substantive testing on the Society's premium income relating to existing policies, new policies written in the year and surrendered policies, as well as analytical and cut-off procedures to ensure revenue recognition policies complied with the Statement of Recommended Practice issued by the Association of British Insurers (revised December 2006); and
- we carried out analytical procedures and journal entry testing in order to identify and test the risk of fraud arising from management override control.

Opinion of other matters prescribed by the Friendly Societies Act 1992

In our opinion the Report of the Committee of Management has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and the information given therein is consistent with the financial statements for the financial year.

Kensington Friendly Collecting Society Limited
Independent Auditor's Report to the Members of the
Kensington Friendly Collecting Society Limited

Matters on which we are required to report by exception

-Friendly Society's Act 1992:

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

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

-Our duty to read other information in the Committee of Management Report;

Under the ISA (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Society acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Committee of Managements' statement that they consider the Committee of Management Report is fair, balanced and understandable and whether the Committee of Management Report appropriately discloses those matters we communicated to the Committee of Management which we consider should have been disclosed.

We have nothing to report in respect of the matters set out above.

Jerome Bury (Senior Statutory Auditor)
For and on behalf of Anderson Barrowcliff LLP
Statutory Auditors
Chartered Accountants
Waterloo House
Teesdale South
Thornaby Place
Thornaby on Tees
TS17 6SA

12 May 2014

Kensington Friendly Collecting Society Limited

Income and Expenditure Account
for the Year Ended 31 December 2013

Technical Account - long term business

	Note	2013 £	2012 £
Earned premiums	3	762,725	757,963
Investment income	4	274,332	374,948
Unrealised losses on investments	4	<u>(569,861)</u>	<u>(31,613)</u>
		<u>467,196</u>	<u>1,101,298</u>
Claims incurred	5	814,101	743,597
Changes in other technical provisions	11	(863,781)	93,751
Net operating expenses			
Acquisition expenses	6	128,348	74,470
Administrative costs	6	156,036	197,388
Investment expenses and charges	6	88,537	98,426
Transfer to/(from) the fund for future appropriations	11	<u>143,955</u>	<u>(106,334)</u>
		<u>467,196</u>	<u>1,101,298</u>
Balance on the technical account - long term business		<u>-</u>	<u>-</u>

Except as disclosed above, there are no recognised gains or losses for the year.

The inclusion of unrealised gains and losses reflects the marking to market of investments in the balance sheet; as this is not deemed to be a departure from the unmodified historical cost basis of accounting, a separate note of historical cost profits and losses is not given.

The notes on pages 21 to 29 form an integral part of these accounts.

Kensington Friendly Collecting Society Limited

Balance Sheet as at 31 December 2013

	Note	2013 £	2012 £
Assets			
Investments			
Land and buildings	9	200,000	225,000
Other financial investments		6,029,272	6,693,504
Debtors			
Debtors arising on direct insurance operations		26,149	32,400
Taxation recoverable		2,778	5,494
Other assets			
Tangible assets	10	9,350	9,239
Cash at bank and in hand		112,685	122,960
Prepayments and accrued income			
Accrued income		35,781	41,278
Prepayments		3,992	7,033
		6,420,007	7,136,908
Liabilities			
Fund for future appropriations			
	11	1,272,598	1,128,643
Technical provisions			
Long term business provision	11	5,068,901	5,932,682
Creditors			
Taxation and social security		5,645	6,762
Other creditors		72,863	68,821
		6,420,007	7,136,908
		6,420,007	7,136,908

The financial statements were approved and authorised for issue by the Committee of Management on 8 May 2014 and were signed on their behalf by:-

Peter Hawkins

B H Douglass

The notes on pages 21 to 29 form an integral part of these accounts

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

1 Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of investments. They have also been prepared in accordance with the Friendly Societies Act 1992, the Friendly Societies (Accounts and Related Provisions) Regulations 1994 and comply with the revised Statement of Recommended Practice issued by the Association of British Insurers.

The members of the Committee of Management consider that the Society has adequate resources to continue in business for the foreseeable future and for this reason it has continued to adopt the going concern basis in preparing these financial statements.

As a mutual life assurance society the Society is exempt from the requirements under Financial Reporting Statement 1 to provide a cash flow statement.

2 Accounting Policies

Premium income

Earned premiums are accounted for as they fall due.

Investment income and expense

Investment income and expenses include all interest and dividends (including recoverable tax credits), rents and realised gains and losses. Income is accounted for on an accruals basis and includes dividends from investments which are "ex dividend" at the year end.

Realised gains and losses are calculated as net sale proceeds less original costs.

Unrealised gains and losses

These represent the movement over the year in the difference between cost and the market value of investments at the year end and are included in the long term business - technical account.

Claims

Claims incurred are accounted for, in the case of deaths and surrenders when they are notified to the Society. Maturities and bonuses are accounted for as they become due. Claims include the attributable processing expense.

Acquisition costs

These represent the costs incurred in acquiring new business. The Society does not recognise deferred acquisition costs. The acquisition cycle is normally a negligible period of time and there is no significant expense unmatched with a policy at any time.

Taxation

The Society only procures and maintains policies within the tax exempt limits as agreed from time to time by H M Treasury and is not normally subject to income or capital taxes.

Pension costs

The Society operates a defined contribution pension scheme for some of its employees. Pension premiums are charged to the Income and Expenditure Account in the year that they are paid.

Investments

Investments are valued at mid-market value at the year end.

Non UK investments are translated into sterling at the exchange rate at the balance sheet date. Any gains or losses on exchange rate differences form part of the overall increase/decrease in market value of investments.

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

2 Accounting Policies continued/.....

Land and buildings occupied by the Society are valued in accordance with generally recognised methods of valuation. The aggregate unrealised surplus or deficit is included in the technical account.

It is the Society's practice to maintain these assets in a continual state of sound repair and to extend and make improvement thereto from time to time; accordingly, the Directors consider that the lives of these assets are so long and residual values, based on prices prevailing at the time of acquisition or subsequent valuation, are so high that any depreciation would be insignificant.

Depreciation

Depreciation is provided to write off the cost less any residual value of tangible assets over their useful lives:

Fixtures & fittings 25% per annum on straight line basis

Long term business provision

The long term business provision is calculated by the Society's actuarial function using a net premium method which complies with the reporting requirements of the Interim Prudential Source Book for Friendly Societies. The provision allows for the cost of all declared reversionary bonuses attaching to policies, including those relating to the current valuation. No explicit provision is made for future reversionary bonuses, though implicit provision is made for these by reducing the valuation rates of interest significantly below the valuation rate the Society can reasonably expect to earn. No adjustments to the statutory solvency basis were required by the Regulations since these reserves were nil. Neither was it necessary to eliminate any deferred acquisition costs since these were not allowed for in the statutory valuation.

Funds for future appropriations

This fund represents funds held by the Society which are not attributable to specific policy holders. Transfers to and from this fund represent the surplus or deficit of income in each year arising from participating business.

3 Earned premiums

Earned premiums relate entirely to periodic industrial assurance premiums collectable including any life assurance premium relief attributable, contracted for in the United Kingdom.

4 Investment income

	2013	2012
	£	£
Income from land and buildings	4,428	(137)
Income from listed investments	233,943	227,280
Gains on investments realised	35,177	138,028
Bank interest	784	9,777
	<u>274,332</u>	<u>374,948</u>
	2013	2012
	£	£
Unrealised losses – property	(25,000)	-
Unrealised losses- investments	(544,861)	(31,613)
Net unrealised losses	<u>(569,861)</u>	<u>(31,613)</u>

The Society has no unlisted investments.

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

5 Claims incurred

	2013	2012
	£	£
Deaths	244,855	225,070
Maturities	232,995	175,618
Surrenders	180,651	174,413
Bonuses in cash	75,524	65,885
	<hr/>	<hr/>
	734,025	640,986
Claims processing expenses	80,076	102,611
	<hr/>	<hr/>
	814,101	743,597
	<hr/> <hr/>	<hr/> <hr/>

6 Expenses

	2013	2012
	£	£
Acquisition expenses	128,348	74,470
Administration	156,036	197,388
Investment expenses and charges	88,537	98,426
Claims processing expenses	80,076	102,611
	<hr/>	<hr/>
	452,997	472,895
	<hr/> <hr/>	<hr/> <hr/>

	2013	2012
	£	£
Committee and staff remuneration (see below)	310,733	321,217
Audit	16,542	19,320
Actuary	35,475	45,405
Stockbroker	38,153	30,803
Depreciation	3,852	3,011
Other overheads	44,226	44,373
Registration fees and subscriptions	4,016	8,766
	<hr/>	<hr/>
	452,997	472,895
	<hr/> <hr/>	<hr/> <hr/>

The average number of persons (including committee members) employed by the Society during the year was as follows:-

	2013	2012
Committee	10	11
Administration	4	4
Sales	19	18
	<hr/>	<hr/>
	33	33
	<hr/> <hr/>	<hr/> <hr/>

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

Expenses continued/.....

The aggregate payroll costs of these persons were as follows:-

	2013	2012
	£	£
Committee members	85,175	85,222
Staff wages	205,106	188,633
Compensation for loss of office	-	25,725
Social security costs	16,424	17,800
Pension contributions	4,028	3,837
	<u>310,733</u>	<u>321,217</u>

Remuneration of the Committee members which includes the Chief Executive, Company Secretary and the Treasurer fell in the following bands:

	2013	2012
£1 - £5,000	8	9
£5,001 - £10,000	-	1
£15,001 - £20,000	-	1
£35,001 - £40,000	2	-
£45,001 - £50,000	-	1
	<u>10</u>	<u>12</u>

The Chairmen received £2,840 (Mark Brooks £2,280, Peter Hawkins £560) and the highest paid member of the Committee received £35,100.

7 Audit fees

	2013	2012
	£	£
Audit	16,542	17,340
Other work	-	1,980
	<u>16,542</u>	<u>19,320</u>

8 Actuaries fees

The present actuarial function and “with profits” actuary has not been a member of the Society and did not have any pecuniary interest in or receive any pecuniary benefit from the Society at any time during the year. Fees payable to the firms of actuaries in which they are a partner were:-

	2013	2012
	£	£
Valuation work	21,000	18,000
Under provision from prior year	-	14,400
Special work	14,475	13,005
	<u>35,475</u>	<u>45,405</u>

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

9 Investments

Land and buildings

	2013	2012
	£	£
At 1 January 2013	225,000	225,000
Revaluation	(25,000)	-
	<u>200,000</u>	<u>225,000</u>

These comprise freehold land and buildings mainly occupied by the Society for its own use. The remainder is let to third parties, income from which is included in investment income (note 4).

On 3 February 2014 the directors obtained an independent valuation of the freehold property prepared by Thomas Stevenson, Chartered Surveyors, at £200,000. The valuation was carried out in accordance with the RICS Valuation Standards. The basis of valuation was existing use value, for those parts of the property occupied by the Society, and market value for the remainder. The property is freehold; it is partially let to third parties, income from which is reflected in investment income. The historical cost of land and buildings at 31 December 2013 was £336,610 (2012 - £336,610).

Other financial investments

	2013		2012	
	Market Value	Cost	Market Value	Cost
	£	£	£	£
British Funds	4,990,586	4,961,684	5,735,286	5,239,023
Foreign Bonds	-	-	530,750	456,513
Fixed Interest	-	-	427,468	383,869
Oil and Gas Producers	63,240	59,026	-	-
Food Producers	18,367	20,688	-	-
Household Goods	20,610	20,423	-	-
Pharmaceutical and Biotech	43,378	39,847	-	-
Food and Drug Retailers	64,847	66,173	-	-
Mobile Telecoms	27,018	19,893	-	-
Electricity	42,510	39,865	-	-
Gas, Water and Utilities	101,632	101,240	-	-
Banks	24,178	25,054	-	-
Life Insurance	24,284	20,004	-	-
Real Estate Investment Trusts	44,657	39,961	-	-
Real Estate Investment and Services	50,400	49,297	-	-
Equity Investment Instruments	513,565	496,882	-	-
	<u>6,029,272</u>	<u>5,960,037</u>	<u>6,693,504</u>	<u>6,079,405</u>

All of the above investments are ascribable to a recognised investment exchange.

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

10 Tangible assets

	Fixtures and fittings	Total
	£	£
Cost		
At 1 January 2013	48,818	48,818
Additions	3,963	3,963
At 31 December 2013	52,781	52,781
Depreciation		
At 1 January 2013	39,579	39,579
Charge for the year	3,852	3,852
At 31 December 2013	43,431	43,431
Net Book Value at 31 December 2013	9,350	9,350
Net Book Value at 31 December 2012	9,239	9,239

11 Funds and technical provisions

	Long term business provision	Fund for future appropriations
	£	£
At 1 January 2013	5,932,682	1,128,643
Transfer (from)/to the technical account	(863,781)	143,955
At 31 December 2013	5,068,901	1,272,598

The principal assumptions used in the calculation for the long term business provision were:-

Future rate of interest earned	with profit policies	2.50%	(2012 – 1.80%)
	Non-profit policies	2.75%	(2012 – 2.05%)
Mortality	English Life Tables No 14		

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

12 Realistic Reporting

Capital Statement

The valuation was carried out in conformity with Liability Valuation Rule 5 in Appendix 5 of the Interim Prudential Sourcebook for Friendly Societies (“IPRU (FSOC)”), and so limitations apply to many of the key assumptions used.

As the Society has no shareholders, all capital belongs to its members. A summary of the available capital resources at the end of 2012 and 2013 are as follows:

	2013	2012
	£	£
Fund for future appropriations	1,272,598	1,128,643
Asset admissibility rules	(15,350)	(15,990)
Resilience reserve	(286,523)	(61,973)
Expense reserve	(240,906)	(241,826)
Total available capital resources	<u>729,819</u>	<u>808,854</u>

Total available capital resources at the end of 2013 are 287% of the required minimum margin.

The movement in the available capital resources during 2013 is analysed as follow:

	2013
	£'000
Starting available capital resources	809
Change in assumptions in the valuation basis	563
Economic factors – investments	(775)
Economic factors – expenses	(39)
Surplus on new business	(27)
Surplus on surrenders	68
Surplus on remaining demographic items	161
Cost of reversionary bonus above margins set aside for bonus	14
Interim and terminal bonuses paid on maturities	(44)
Available capital resources at end of year	<u>730</u>

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

12 Realistic Reporting continued/.....

Risks

Approximately 78% of the assets of the fund are held in UK bonds for which changing market conditions can affect bond values and future returns. The next largest holding is approximately 16% in UK equities (direct holdings and collective investment schemes) and these are sensitive to market movements in general. The Society has a small holding in cash deposits which are sensitive to changes in the Bank of England base interest rate. The market value of the Society's offices is subject to movements in the office property market.

The valuation interest rate is determined by the overall return achieved on the assets held by the fund. For the fixed interest stocks the yield is reduced by an appropriate factor based on the perceived risk of each individual bond. As the fixed interest stock portfolio consisted entirely of UK government bonds at the valuation date, no reduction in yield for credit risk was deemed necessary. The yield on equities is reduced by 0.3%. The society has minimal property rental income after expenses and any yield is adjusted by 0.5% as an additional allowance or risk. The overall yield figure for each asset is then adjusted downwards by multiplying by 97.5% to allow for more general risk. The interest rate is then reduced by a further 0.25% to allow for an implicit margin for future bonuses.

In order to ascertain the exposure to market risk, the Actuarial Function Holder carried out a Resilience Test as per IPRU (FSOC) Annex 4 Section 12. This involved carrying out 2 tests; a fall in property values of 20% with a 10% fall in rental income and an equity fall of 10% together with a 10% fall in earnings, combined with either a rise or fall in bond yields of 0.69%. It was the scenario with the rise in bond yields that produced the greater change, and this was modelled in the valuation by increasing the valuation interest rate by 0.45% for both premium paying and paid up policies. The decrease in the value of assets (£587K) less the decrease in the value of liabilities (£300K) resulted in a resilience reserve of £287K.

The expense allowance within the valuation are 20% of all premiums received for quinquennial policies and 25% of all premiums for endowment and whole of life policies together with 0.5% p.a. of funds under management. The latter is allowed for as an additional margin between the valuation rate of interest and the anticipated rate of future investment return. A net premium test was then carried out to ensure the 75% and 80% restrictions provided sufficient margins.

The total expenses incurred by the fund were then analysed to get those that would occur if running it as a closed fund, and the remainder. The closed fund expenses are covered by the above expense margins and so no closed fund expense overrun reserve is required. A reserve of £33K is required for the costs of redundancy and any other costs of closing to new business not covered by the expense margins. A further £208K expense over-run reserve is required for the additional costs of new business not allowed for within the premium rates over the next financial year. This is based on the Society selling the same amount of new business as for the previous financial year. The total of these expense reserves has then been rounded up to £241K.

Mortality investigations have been carried out for the 2011, 2012 and 2013 financial years. The actual allowance for mortality is 110% of the ELT 14 male and female mortality tables which preserves a prudent margin on the experience of the Society.

Other than regular and terminal bonuses on With Profits policies, there are no options or guarantees which apply to policies.

The Society has no Principles and Practices of Financial Management (PPFM).

13 Capital commitments and contingent liabilities

There were no capital commitments or contingent liabilities at 31 December 2013 or 2012.

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2013

14 Transactions with related parties

The Society shares in common resources with an unincorporated enterprise, Careys, a firm trading in consumer credit. The Chief Executive of the Society has a significant interest in Careys.

The Society leases office space to Careys at an annual rental of £6,000 (2012: £6,000) on independently assessed commercial terms. The Society also charges and recharges common overheads with Careys, again on normal commercial terms. During the year Careys charged the Society £23,266 (2012: £25,203) and the Society charged Careys £8,417 (2012: £18,309) in respect of these common overheads. This sharing of costs enables economies of scale to be realised. At the year end the sum of £662 (2012: £837) was due from the Society to Careys.

By using Careys network, the members benefit not only from the reduction of administrative expenses and acquisition costs but also from the wider availability of the Society's products to both new and existing members.

Minster Cleaning Services, a company under the control of Peter Hawkins, provided cleaning services to the Society during the year totalling £1,044 (2012: £1,109) and Endeavour Partnership LLP, a legal firm in which Jamie Brown is a partner, provided legal services totalling £1,703 (2012: £1,435). No balances were outstanding at the year end. These transactions were undertaken on normal commercial terms.

Some of the Committee members are also members of the Society and pay premiums in relation to life assurance products. These transactions were originally made on the same terms and conditions as applicable to other members of the Society.

	2013		2012	
	Number of persons £	Sum assured £	Number of persons £	Sum assured £
Life assurance and endowment policies:				
Premiums paid	6	4,049	6	4,040
Total sum assured at 31 December	6	68,717	6	69,148

15 Pension costs

During the year the Society paid £4,028 (2012: £3,837) into a defined contribution pension scheme for the benefit of certain employees. The assets of the scheme are held separately to the assets of the Society in an independently administered fund. At 31 December 2013 there were no outstanding or prepaid contributions (2012: £Nil).