

The Kensington Friendly Collecting Society Limited

**110th Annual Report
of the Committee of Management
for the Year Ended 31 December 2014**

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 2014**

Registered Office	1 Kensington Road Middlesbrough TS5 6AL		
<u>Committee of Management</u>	Non-Executive Directors	First Election	Last Re-election
Chairperson	Peter Hawkins	June 2006	June 2014
Senior Independent Director	David McTiernan	June 1993	June 2014
	David Kirk	June 2005	June 2014
	Mark Brooks	June 2005	June 2014
	Peter McTiernan	June 2006	June 2014
	Jamie Brown (Vice Chair)	June 2011	June 2014
	Christine Scott	June 2011	June 2014
	Gary Ferguson	June 2012	June 2014
	Debra Barker	} Seeking election at the 2015 annual general meeting	
	Gillian Dobson		
	Executive Directors		
	Philip Carey	June 2006	June 2014
	Brian Douglass	June 2012	June 2014
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 Tobias House St Marks Court Teesdale Business Park Thornaby on Tees TS17 6QW		

The Kensington Friendly Collecting Society Limited

**Committee of Management and Independent Advisors
for the Year Ended 31 December 2014**

Professional Advisors continued/.....

Investment Managers

Vestra Wealth LLP
14 Cornhill
London
EC3V 3NR

Bankers

Yorkshire Bank
Central Branch
7 Linthorpe Road
Middlesbrough
TS1 1RF

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 2014

Welcome to the Annual Report and Accounts of Kensington Friendly Collecting Society Limited for the year ended 31 December 2014.

Despite the 'sluggish' recovery across our region, caused by the continued economic uncertainty and austerity measures still having an adverse effect, I am pleased to report that business at The Kensington Friendly Collecting Society Limited appears to be heading in a positive direction.

We have realised healthy investment returns in 2014, which was due in part to the investment strategy which has been adopted over the past few years and in part to the on-going benefits of changes to our expenses and remuneration costs. This has enabled us to re-instate bonus payments on our members' policies for this year. These strategies, along with a change in our Investment Managers, has given a new impetus to our portfolio which we believe is well placed for continued healthy returns in future years.

It would be remiss of me not to thank our out-going Investment Managers, Redmayne Bentley, for all their efforts over the years. They helped The Kensington Friendly Collecting Society Limited to realise value for our customers, through good and bad times, with the reason for change not down to performance but for the Society to obtain a new perspective on our investment portfolio, which both myself and fellow Board Members believe has been achieved by engaging Vestra Wealth LLP to fulfil this role. With the help of our Actuary, Steve Dixon Associates, we have also undertaken work to revise our policy tables which we now believe give a fairer return to all our members.

We continue to owe our staff a 'great debt of gratitude' for their continued drive and commitment in securing new business which, despite the many changes they have had to endure over the past few years, they have continued to strive and work for the best interests of our organisation.

During the year we welcomed two new Non-Executive Directors onto the Committee of Management, Debra Barker and Gillian Dobson who, along with all the other Board members continue to support myself, the Company Secretary and Chief Executive with a great deal of knowledge and enthusiasm. My thanks to them for their commitment, this is also extended to the Society's external advisers for their expert contribution and advice.

The Committee of Management of the Kensington Friendly Collecting Society Limited continues to strive for the good of all its members and looks forward to a healthy 2015.

Peter Hawkins

Date: 14 May 2015

The Kensington Friendly Collecting Society Limited

Chief Executive's Report
For the Year Ended 31 December 2014

For several years the Board have been considering in detail four principal topics: products, services, expenses and the long term future of the Society.

The Society's premium rate tables had not been reviewed since 1984. After a series of actuarial investigations into asset shares and the expense base of the Society it was evident that a new premium rate set needed to be produced. After a considerable amount of work by the Society's Actuary and much discussion by the Board new premium rates were introduced on the 1st January 2015. The new tables address the imbalances of the previous rate set and ensure fairness to all members in that each product is profitable and not subsidised by other products or the estate.

The Society has also introduced a taxable table which allows members to take out policies in excess of the current tax exempt limits for friendly society products. There was a demand for this product because successive governments have not increased the £5.70 per week tax free limit. This meant that some members were unable to increase their death cover to keep pace with the significant increase in funeral expenses over the last 20 years.

The Kensington Friendly Collecting Society Limited is one of the few societies that still offer a home service for the collection of members' premiums. This service offers fair value to members in that there are no charges for late or missed payments, no loss of benefit for being in arrears up to 12 weeks, and an on-going weekly relationship with members. This service fits into most members' cash budgeting techniques and allows a degree of payment flexibility to reflect the issues surrounding payment difficulties for those members on zero hour contracts, low paid employment or suffering from the inequities of welfare benefit sanctions. However the cost of collection was not transparent as it was wrapped in the overall premium and it was not fair to the small section of members who wanted to pay by standing order. The new product tables separate the cost of the product from the service. If a member prefers to pay by standing order there is no charge for collection and if a member wishes to pay by home collection there is a service charge of 5% of the weekly premium. The Board believes that this change has brought fairness and transparency to all sections of the Society's membership.

The change to products and services was precipitated by the conclusions of the actuarial report into the expense base of the Society. Amongst other expenses it was clear that the current employment costs of the Society were unsustainable if the Society was to survive. As a result salary reductions have been applied to the Chief Executive, Company Secretary and Society Supervisor. In addition the Society's agents have once again seen their overall commissions reduced. The impact of these reductions will feed into subsequent annual accounts but in total they are significant and will in the long term enable the Society to give better returns to its members. I am extremely grateful to all of the Society's employees for their co-operation and pragmatism in enabling these changes to be implemented smoothly.

Overall the changes in premium rates, reduction in employment and supplier costs and the income from the collection charge will enable the Society to offer a fair and reasonable set of products to its membership. This is good news for members and it is good news for those people in Teesside who are excluded from purchasing simple cost effective savings and protection products.

Finally I wish to thank Janet Hare and Alan Robbins who have both retired as agents of the Society during the course of the year. They have both served the Society extremely well and contributed significantly over their combined service of 50 years. They will be missed by their colleagues and customers.

Phil Carey

Date: 14 May 2015

The Kensington Friendly Collecting Society Limited

Strategic Report of the Committee of Management **For the Year Ended 31 December 2014**

The Committee of Management of the Kensington Friendly Collecting Society Limited presents its Strategic Report for the Society for the year ended 31 December 2014.

Business Model

The Society is an incorporated non directive Friendly Society that was established in 1904. The Society continues to provide its Members with assurance based life and savings products. The Committee of Management believes that there remains a market for these products with a home collection service. The home collection service enables Members to be flexible in the frequency and timing of their premium payments. This is particularly suited to the majority of the Society's Members who are either in insecure employment, on zero hour contracts or in receipt of welfare benefits.

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

- To treat the Members of the Society fairly and equitably.
- To ensure Members get the outcomes they expect.
- To offer assurance products that allow Members to make provision for savings and funeral expenses.
- To ensure that Members' funds and investments are maximised and administered equitably and securely.
- The Society aims to achieve high standards of integrity and fairness in its dealings with Members. 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 Limited. Members can also contact the Senior Independent Director to resolve issues by e-mail (david.mctiernan@ntlworld.com).

Business Strategy

During the period under review the Committee of Management has conducted a review of the activities, products and cost structure of the Society. Following this review the Committee believes that there remains a market for the Society's product range and the home collection service. The Committee has embarked upon a strategy to grow the Society's premium income and enhance Members benefits through cost efficiencies and improved investment returns.

Business Environment

The business environment that the Society operates in has remained challenging. The improvements in growth and employment in the wider UK economy have yet to materialise on Teesside to the same extent. During 2014 the area remained one of high unemployment and with an increasing number of Members being affected by the Government's welfare sanctions.

Results and Performance

Despite the challenging conditions facing the Society in 2014 the Committee of Management is encouraged that there remains a market for the Society's products and services. A 4.5% increase in annualised premiums for new business to £107,016 has been achieved, together with a 2.3% overall increase in total premiums received over the year. The Committee of Management is also encouraged by the modest reduction in the rate of policy lapses and surrenders.

During the year the Society continued with its investment strategy designed to increase Member returns over the longer term by introducing additional equities into the investment portfolio. At the year end the portfolio consisted of 74% (2013: 83%) fixed interest and 26% (2013: 17%) equities.

The year saw periods of volatility in the equity markets and a significant increase in the price of Government Gilts and Corporate Bonds. As the Society maintains a high level of fixed interest securities in order to protect the solvency of the Society it has benefitted from these price increases and has an overall investment return for the year of 17.9% (2013: -3.88%).

The review of management costs has been on-going throughout 2013 and 2014. This has begun to impact upon the results of the Society as overall expenses were reduced from £452,977 in 2013 to £389,572 in 2014.

As a result of cost efficiencies and improved investment returns the Committee of Management is pleased to be able to declare a reversionary bonus for 2015 and to maintain terminal bonuses at the current level. The Fund for future appropriations has increased by £57,973 (2013: increase of £143,955).

The Kensington Friendly Collecting Society Limited

Strategic Report of the Committee of Management Continued... For the Year Ended 31 December 2014

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 and seek to recycle used supplies, where appropriate.

Future Developments

In January 2015 the Society introduced a new set of premium rate tables. The new rate tables erase the imbalances of the previous rate tables and ensure that all Members irrespective of age and duration are treated equally and fairly.

In addition to ensure transparency of charges and to treat Members fairly, the charge for the home collection service has been separated from the product charges. Members who have taken policies out from January 1st 2015 now have the option to pay the Society directly by standing order or pay a collecting charge based on their weekly premium. This ensures that Members are explicitly aware of the costs associated with the home collection service.

The Society has also introduced tables which allow Members to take out policies with premiums in excess of current Tax Exempt Savings Policy limits (TESP). The reluctance of successive governments to increase the TESP limit since 1997 meant that Members' benefits were capped at a premium level of £5.70 per week. The new taxable table enables Members to increase their death cover in line with increased funeral costs.

Principal Risks and Uncertainties

In trying to achieve the objectives of the Society there will always be risks involved and the Committee of Management has through the implementation of its governance structure set out controls and procedures to manage these risks within the parameters for risk appetite as set by the Committee of Management.

The Committee of Management considers the following to be the main risks facing the Society;

- **Market risk.** The volatility within financial markets could impact upon the Society by adversely affecting the returns that are able to be generated for Members and therefore the overall financial strength of the Society. The Committee of Management works closely with the Society's Actuary and Investment Managers to monitor the investment conditions and seeks to maximise the returns within the level of risk determined by the Committee of Management. Risk is mitigated by holding a range of fixed interest securities, quoted equities, property and cash within the portfolio. The Society operates a risk budget approach to protect capital. This determines the maximum proportion of each class of asset in particular market conditions. Changes in interest rates could affect the value of fixed interest securities and so to mitigate this risk the Society aims to partly match the duration of assets and liabilities. The risk that Corporate Bond issuers may default is managed by the restriction upon the level of Corporate Bonds that the Society may hold at any point in time. The risk of equity prices moving down is managed by the Investment Managers actively managing the stocks within the market conditions that exist.
- **Regulatory Risk.** Changes introduced by regulators may impact upon the strategy operated by the Society and may cause an increase in expenses. The Committee of Management will continue to monitor any developments from the regulators and will work with the Association of Financial Mutuals and external compliance consultants to ensure that the Society is ready for the introduction of new legislation. The costs of the Society are constantly under review and closely monitored against agreed budgets.

By order of the Board

Brian Douglass
Company Secretary

Date: 14 May 2015

The Kensington Friendly Collecting Society Limited

Committee of Management Biographies for the Year Ended 31 December 2014

Peter Hawkins – Chair

Peter was elected on to the Committee of Management in June 2006 and also serves on the Finance & Investment Committee, Remuneration & Assessment Committee and the Nomination Committee. He owns and manages his own cleaning company, covering Teesside and South Durham, employing over one hundred staff. Peter is currently the Chair of Governors at a local primary school where he has been on the governing body for over twenty years.

Peter became Vice Chair of the Society in September 2011 and was elected Chair in September 2013.

David McTiernan BSC – Senior Independent Director

David was elected on to the Committee of Management in June 1993 and also chairs the Remuneration & Assessment Committee and the Nomination Committee and serves on the Finance & Investment Committee. After graduating from St. Andrews University with a degree in Physics and Chemistry in 1963, David has had a varied and successful career. He initially qualified as a teacher before moving into the construction industry in Australia. On his return to the United Kingdom in 1968 David set up his own construction company specialising in specialist bituminous roofing products which David helped to develop with the chief chemists of large oil companies. David retired from the roofing business in 2003 and initially worked as a Property Consultant.

David has also been a governor of two special educational needs schools and trained to become a named person offering support and advice to parents of children with special educational needs.

David Kirk – Chair of Audit and Risk Committee

David was elected on to the Committee of Management in June 2005 and is currently Chair of the Audit & Risk Committee. David also serves on the Nomination Committee and the Remuneration & Assessment Committee. He is a retired Police Officer where he specialised in emergency planning, transportation of dangerous chemicals and health and safety.

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.

Mark Brooks BSC (Hons)

Mark was elected on to the Committee of Management at the 2005 annual general meeting and became Chairman of the Society in September 2009. Mark served for five years on the Audit & Risk Committee before moving onto the Finance & Investment Committee. Since 2013 Mark has been the Compliance Officer of the Society. Mark also serves on the Remuneration & Assessment Committee. Mark lives in Middlesbrough with his wife and children and works in the chemical industry on Teesside which he has been involved in for over twenty five years.

Jamie Brown BA – Vice Chair

Jamie was elected to the Committee of Management in June 2011 and also serves on the Audit & Risk Committee, the Nomination Committee and the Remuneration & Assessment Committee. After obtaining a degree in Geology from Manchester University, Jamie was employed as a Geologist in oil exploration before re-training and qualifying as a 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.

Philip Carey 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 on to the Committee of Management in 2006. Philip also serves on the Finance & Investment Committee and the Nomination Committee.

The Kensington Friendly Collecting Society Limited

Committee of Management Biographies Continued...
for the Year Ended 31 December 2014

Peter McTiernan BSC MRICS, APA

Peter was elected on to the Board in June 2006 and also serves on the Audit & Risk Committee and the Remuneration & Assessment Committee. Peter is a Chartered Surveyor and has worked in a number of senior roles within the NHS, local authorities and the private sector including running his own business. Peter is a Professional Associate of the Royal Institution of Chartered Surveyors, a Member of the Association of Partnering Advisers and is also a Registered Adjudicator with the Home Office.

Throughout his career Peter has played a lead role in some high profile projects across the leisure, health and heritage sectors.

Christine Scott ACMA

Christine was elected on to the Committee of Management in June 2011 and also serves on the Audit & Risk Committee and the Remuneration & Assessment Committee. Christine is an Associate Member of the Chartered Institute of Management Accountants and worked in local government finance for twenty three years, five of which she was Deputy Chief Finance Officer responsible for the proper administration of the local authority's financial affairs. During her time in local government she also worked as an Accountant holding corporate and strategic planning roles at senior management level, developing medium term financial and service delivery plans.

Gary Ferguson

Gary was elected to the Committee of Management in June 2012 and also serves on the Finance & Investment Committee and the Remuneration & Assessment Committee. 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.

Brian Douglass BA(Hons) FCCA – Company Secretary

Brian joined the Society as Company Secretary in May 2012 and was elected on to the Committee of Management in June 2012. He also serves on the Audit & Risk Committee and the Finance & Investment Committee. After graduating from Teesside University in 1988 with a degree in Business Studies he trained as an Accountant, qualifying in 1996. 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.

Debra Barker CeMap

Debra joined the Committee of Management in 2014 and also serves on the Audit & Risk Committee and the Remuneration & Assessment Committee. Debra has a vast amount of knowledge and experience of the Financial Services industry to bring to the Society, having worked in that environment for twenty five years. She spent twenty one years with Lloyds Banking Group in a number of roles, managing risk and compliance along with business development and sales across branches in the North East. She has experience of working within a regulated industry. She has also worked in HR and was a Business Partner to a senior Manager of the business.

Gillian Dobson BA(Hons), DChA, ACA

Gillian is a Chartered Accountant with a diploma in Charity Accounting. Gillian is director of Corporate Resources for Mental Health Matters, having previously worked as Finance Director of Tees Valley Leisure, Head of Finance and Governance for the Learning and Skills Council Tees Valley and Chief Accountant of Teesside Training and Enterprise Council. Gillian is also a trustee of Unite Limited, a mediation and restorative practice charity based in Middlesbrough, and was formerly a Governor and audit committee member of Prior Purslove College, Guisborough.

Gillian also serves on the Remuneration & Assessment Committee and the Audit & Risk Committee.

The Kensington Friendly Collecting Society Limited

Corporate Governance Report **for the Year Ended 31 December 2014**

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

Compliance with the Annotated Combined Code for Mutual Insurers

The board is committed to a high standard of corporate governance.

The board considers that, throughout the period under review, it has applied the relevant principles and complied with the relevant provisions of The Annotated Corporate Governance Code for Mutual Insurers (Dated: November 2012) (the Code).

The following are exceptions to our compliance with the Code for the stated reasons;

- The Committee does not run formal member forums as it believes 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 Committee Members does not have formal performance related elements and the Remuneration Committee does 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 believes that this method is appropriate to the size and complexity of the Society.

The board does not regard the exceptions as material departures.

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 annual general meeting.

The Committee of Management

The Committee of Management during the year comprised twelve Members, ten 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 7 and 8.

Chairperson

Peter Hawkins served as Chairperson throughout the year and does not hold any other non-executive role, other than that disclosed on page 7. He 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.

The Kensington Friendly Collecting Society Limited

Corporate Governance Report Continued... **for the Year Ended 31 December 2014**

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.

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 Annual General Meeting. The Committee of Management considers 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 two 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 has been a board member during different periods of the economic cycle. This gives David perspective, experience and practical knowledge which the Board and Executive team find valuable during periods of volatility and uncertainty. We consider that he maintains his independence as a Committee member and that his contribution is too valuable for the Society to lose. Notwithstanding this David has advised the Chairman that it is his intention to step down from the Committee at the 2016 annual general meeting.

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.

The Kensington Friendly Collecting Society Limited

Corporate Governance Report Continued... for the Year Ended 31 December 2014

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 2014. 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	2
David McTiernan	4	4	N/A	1	1/2
David Kirk	4	N/A	3	1	2
Mark Brooks	4	2	N/A	1	N/A
Peter Hawkins	4	4	N/A	1	2
Peter McTiernan	4	N/A	3	1	N/A
Philip Carey	4	4	N/A	N/A	2
Christine Scott	4	N/A	3	1	N/A
Jamie Brown	4	N/A	3	0/1	2
Gary Ferguson	4	4	N/A	1	N/A
Brian Douglass	4	4	N/A	N/A	N/A
Debra Barker	2/2	N/A	1/1	N/A	N/A
Gillian Dobson	1/1	N/A	N/A	N/A	N/A

Society Secretary

The role of the Chief Executive and the Company Secretary were split in 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, 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

The Kensington Friendly Collecting Society Limited

Corporate Governance Report Continued... for the Year Ended 31 December 2014

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 & Risk Committee, the Nomination Committee and the Finance & 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 Society 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 Limited.

Members are also advised on their appointment of their legal and regulatory responsibilities, 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 & Investment Committee and the Audit & Risk Committee.

The Kensington Friendly Collecting Society Limited

Corporate Governance Report Continued...
for the Year Ended 31 December 2014

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 & Risk, Remuneration, Nomination, and Finance & Investment Committees are available on the Society's website.

Audit & Risk Committee

During 2014 the Audit & Risk Committee met three times and comprised the following Members:

David Kirk - Chairperson
Peter McTiernan
Jamie Brown
Christine Scott
Brian Douglass
Debra Barker

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 it believes 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 2014.

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.

The Kensington Friendly Collecting Society Limited

Corporate Governance Report Continued...
for the Year Ended 31 December 2014

Activities in 2014

The Audit & Risk Committee met three times in 2014 and discharged its responsibilities by:

- Review of the Society's progress on meeting Treating Members 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 Annual General Meeting.

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
Jamie Brown

Its terms of reference are available on the Society's website. It met on two occasions during 2014. Two new Board Members were appointed during 2014. The Society did not use an external search consultancy in the recruitment of these new Board Members preferring to source candidates via alternative and more cost effective methods such as referral by existing Board Members, professional advisers and business contacts.

In accordance with the Society equal opportunities policy, 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 this policy.

The Kensington Friendly Collecting Society Limited

Corporate Governance Report Continued...
for the Year Ended 31 December 2014

Finance & Investment Committee

This comprises the following:-

David McTiernan
Peter Hawkins – Chairperson
Mark Brooks
Philip Carey
Gary Ferguson
Brian Douglass

It met on four occasions during 2014. Its terms of reference are available on the Society's website. During 2014 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.

The Kensington Friendly Collecting Society Limited

Report of the Committee of Management **For the Year Ended 31 December 2014**

The Committee of Management presents its annual report and audited financial statements for the Society for the year ended 31 December 2014. This report should be read in conjunction with the Strategic Report set out on pages 5 and 6.

Members of the Committee of Management

The Members of the Committee of Management are shown on page 1, and brief biographies on pages 7 and 8. During the period under review Debra Barker and Gillian Dobson joined the Committee of Management. All Members of the Committee of Management will be standing for election/re-election at the forthcoming annual general meeting.

Business objectives and activities

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.

The Kensington Friendly Collecting Society Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Business Review

The Society performance is reviewed by the Chairman on page 3 and in the Strategic Report on pages 5 and 6.

The overall financial position of the Society as at 31 December 2014 is considered satisfactory considering the local economic climate.

Statement of Solvency

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 31 December 2014, the Society had in the opinion of the Actuarial Function holder the required solvency margins prescribed in section 48(2) Friendly Societies Act 1992.

Going Concern basis

The Committee of Management is satisfied that it is appropriate for the Kensington Friendly Collecting Society Limited to prepare financial statements on a going concern basis. The Committee considers that the Society has adequate resources to continue in business for the foreseeable future. In making this assessment the Committee have considered the above Statement of Solvency from the Actuarial Function Holder and the actuarial valuation.

Charitable and Political donations

The Society made no political or charitable donations during the year.

Equal Opportunities

The Society operates 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 treats visitors, clients, Members, suppliers and former staff members.

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, qualifications 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.

The Kensington Friendly Collecting Society Limited

Report of the Committee of Management Continued...
For the Year Ended 31 December 2014

Disclosure of Information to Auditors

The Members of the Committee of Management who held office at the date of approval of this report confirm that, so far as they are aware, there is no relevant audit information of which the Society's auditors are unaware, and each Committee Member has taken steps he or she ought to have taken as a Committee Member to make himself or herself aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

Statement of Committee of Management 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 Financial Services & Markets Act 2000, Friendly Societies Act 1992 and the regulations made under it. 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 re-appointment of Anderson Barrowcliff LLP as auditors of the Society.

On behalf of the Committee of Management

B H Douglass
Company Secretary

Date: 14 May 2015

The Kensington Friendly Collecting Society Limited

Remuneration Report
for the year ended 31 December 2014

This report is submitted in respect of the year ended 31 December 2014. A vote to approve the report will be put to the 2015 Annual General Meeting.

Remuneration & Assessment Committee

The remuneration policy of the Society is the responsibility of the Remuneration Committee. This Committee meets at least annually and is chaired by David McTiernan, the Senior Independent Director of the Society. The Committee consists of all the Non-Executive Committee Members. Executive Members do not serve on this Committee.

Remuneration policy

The remuneration policy of the Society aims for remuneration rates to be set that enables the Society to recruit, motivate and retain suitably qualified and committed staff. The remuneration rates are set at levels that enable a competitive package to be offered reflecting on the experience and level of responsibility of each role. In arriving at these market rates the Committee considers the overall performance of the Society and the individuals together with the overall economic conditions relevant to the Society and the sectors that it operates in.

The Society does not operate a long term incentive scheme.

Executive Committee Members

The Executive Committee Members are paid a salary to reflect the individual's experience and responsibility. It is based upon the Members of the Remuneration Committee's experiences of the local market, the size of the role, Society and individual performance. In addition the Society pays a pension contribution for the Chief Executive.

The Executive Members have continuing service contracts with notice periods set at less than twelve months.

Non-Executive Members

Non-Executive Members are expected to initially serve for a period of three years, subject to satisfactory performance, and they are subject to annual re-appointment at the Society's annual general meeting. The Non-Executive Members receive annual retainers plus agreed attendance rates for meetings and when they are working for or representing the Society. The policy of the Society is that fees payable to Non-Executive Members should reflect the time spent by the Member in relation to the business of the Society and reflect the responsibilities borne by the Members.

Non-Executive Members do not have service contracts and their notice period is three months.

The Society maintains Directors' and Officers' liability insurance with a current indemnity limit of £2 million. Committee Members are given access to independent professional advice at the expense of the Society when they deem it necessary in order for them to carry out their responsibilities.

Staff Salaries

The Society aims to pay salaries at the market rate to reflect the relevant role, the level of responsibility and the individual's performance. All staff salaries are reviewed annually.

The Kensington Friendly Collecting Society Limited

Remuneration Report Continued...
for the year ended 31 December 2014

Fees, salaries and benefits of the Committee of Management in 2014 amounted to:

	Fees	Salary	Benefits	Pension	Total	2013
	£	£	£	£	£	£
Peter Hawkins	2,320	-	-	-	2,320	1,674
David McTiernan	1,752	-	-	-	1,752	1,512
David Kirk	1,808	-	-	-	1,808	1,488
Mark Brooks	2,440	-	-	-	2,440	3,040
Peter McTiernan	1,432	-	-	-	1,432	1,352
Philip Carey	-	33,625	-	4,230	37,855	39,129
Jacqueline Allenby (resigned October 2013)	-	-	-	-	-	1,784
Jamie Brown	1,832	-	-	-	1,832	1,352
Christine Scott	1,512	-	-	-	1,512	1,352
Gary Ferguson	1,512	-	-	-	1,512	1,352
Brian Douglass	-	36,975	-	-	36,975	35,099
Debra Barker (appointed 3 September 2014)	611	-	-	-	611	-
Gillian Dobson (appointed 27 November 2014)	133	-	-	-	133	-
	15,352	70,600	-	4,230	90,182	89,134

David McTiernan
Chairman of the Remuneration Committee

Date: 14 May 2015

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 2014 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 17, 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 in accordance with United Kingdom Generally Accepted Accounting Practices, of the state of the Society's affairs as at 31 December 2014 and of its income and expenditure for the year then ended; 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 Continued...

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 £36,000 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 £32,400.

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 £12,000 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 principal 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 Continued...**

Matters on which we are required to report by exception

-Friendly Societies 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's (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.

-Corporate Governance Statement:

In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the nine provisions of the Annotated UK Corporate Governance Code specified by the Association of Financial Mutuals. We have nothing to report in respect of this review.

Anderson Barrowcliff LLP
Statutory Auditor
Chartered Accountants
Waterloo House
Teesdale South
Thornaby Place
Thornaby on Tees
TS17 6SA

Date: 14 May 2015

Kensington Friendly Collecting Society Limited

Income and Expenditure Account
for the Year Ended 31 December 2014

Technical Account - long term business

	Note	2014 £	2013 £
Earned premiums	3	780,291	762,725
Investment income	4	380,740	274,332
Unrealised gains/(losses) on investments	4	<u>745,939</u>	<u>(569,861)</u>
		<u>1,906,970</u>	<u>467,196</u>
Claims incurred	5	792,732	814,101
Changes in other technical provisions	11	742,540	(863,781)
Net operating expenses			
Acquisition expenses	6	127,284	128,348
Administrative costs	6	105,229	156,036
Investment expenses and charges	6	81,212	88,537
Transfer to the fund for future appropriations	11	<u>57,973</u>	<u>143,955</u>
		<u>1,906,970</u>	<u>467,196</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.

Kensington Friendly Collecting Society Limited

Balance Sheet as at 31 December 2014

	Note	2014 £	2013 £
Assets			
Investments			
	9		
Land and buildings		200,000	200,000
Other financial investments		6,922,933	6,029,272
Debtors			
Debtors arising on direct insurance operations		19,705	26,149
Taxation recoverable		3,088	2,778
Other assets			
Tangible assets	10	7,193	9,350
Cash at bank and in hand		47,733	112,685
Prepayments and accrued income			
Accrued income		38,530	35,781
Prepayments		5,849	3,992
		7,245,031	6,420,007
Liabilities			
Fund for future appropriations			
	11	1,330,571	1,272,598
Technical provisions			
Long term business provision	11	5,811,441	5,068,901
Creditors			
Taxation and social security		4,508	5,645
Other creditors		98,511	72,863
		7,245,031	6,420,007

The financial statements were approved and authorised for issue by the Committee of Management on 14 May 2015 and were signed on their behalf by:-

Peter Hawkins

B H Douglass

The notes on pages 25 to 33 form an integral part of these accounts

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2014

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 2014

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

	2014	2013
	£	£
Income from land and buildings	3,507	4,428
Income from listed investments	217,909	233,943
Gains on investments realised	156,629	35,177
Bank interest	2,695	784
	<u>380,740</u>	<u>274,332</u>
	2014	2013
	£	£
Unrealised losses – property	-	(25,000)
Unrealised gains/(losses)- investments	745,939	(544,861)
Net unrealised gains/(losses)	<u>745,939</u>	<u>(569,861)</u>

The Society has no unlisted investments.

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2014

5	Claims incurred	2014	2013
		£	£
	Deaths	268,305	244,855
	Maturities	192,688	232,995
	Surrenders	199,062	180,651
	Bonuses	56,830	75,524
		<hr/>	<hr/>
		716,885	734,025
	Claims processing expenses	75,847	80,076
		<hr/>	<hr/>
		792,732	814,101
		<hr/> <hr/>	<hr/> <hr/>

6	Expenses	2014	2013
		£	£
	Acquisition expenses	127,284	128,348
	Administration	105,229	156,036
	Investment expenses and charges	81,212	88,537
	Claims processing expenses	75,847	80,076
		<hr/>	<hr/>
		389,572	452,997
		<hr/> <hr/>	<hr/> <hr/>

		2014	2013
		£	£
	Committee and staff remuneration (see below)	258,940	310,733
	Audit	19,091	16,542
	Actuary	36,149	35,475
	Stockbroker	29,731	38,153
	Depreciation	4,463	3,852
	Other overheads	38,854	44,226
	Registration fees and subscriptions	2,344	4,016
		<hr/>	<hr/>
		389,572	452,997
		<hr/> <hr/>	<hr/> <hr/>

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

		2014	2013
	Committee	11	10
	Administration	4	4
	Sales	17	19
		<hr/>	<hr/>
		32	33
		<hr/> <hr/>	<hr/> <hr/>

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2014

Expenses continued/.....

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

	2014	2013
	£	£
Committee Members	85,952	85,106
Staff wages	158,250	205,175
Social security costs	10,508	16,424
Pension contributions	4,230	4,028
	258,940	310,733

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

	2014	2013
£1 - £5,000	10	8
£30,001 - £35,000	1	-
£35,001 - £40,000	1	2
	12	10

The Chairman received £2,320 (2013: £2,840) and the highest paid member of the Committee received £36,975 (2013: £35,100).

7 Audit fees

	2014	2013
	£	£
Audit	18,000	16,542
Under provision previous year	1,091	-
	19,091	16,542

8 Actuaries fees

Steve Dixon of Steve Dixon Associates LLP performs the functions of Actuarial Function Holder and With Profits Actuary.

The Society has requested him to furnish it with particulars required under Section 77 of the Friendly Societies Act 1992. Mr Dixon has confirmed that neither he or his family, nor any of his associates were members of the Society, nor have they any financial pecuniary interest in the Society, with the exception of fees payable to Steve Dixon Associates LLP which are shown as follows:-

	2014	2013
	£	£
Valuation work	21,630	21,000
Special work	14,519	14,475
	36,149	35,475

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2014

9 Investments

Land and buildings

	2014	2013
	£	£
At 1 January 2014	200,000	225,000
Revaluation	-	(25,000)
	200,000	200,000

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 2014 was £336,610 (2013 - £336,610).

The directors are not aware of any material change in value since the valuation date.

Other financial investments

	2014		2013	
	Market Value	Cost	Market Value	Cost
	£	£	£	£
British Funds	4,795,477	4,107,096	4,990,586	4,961,684
Foreign Bonds	209,995	208,520	-	-
Fixed Interest	102,904	103,017	-	-
Basic materials and basic resources	22,046	23,071	-	-
Oil and Gas Producers	35,915	39,235	63,240	59,026
Industrials	25,194	28,279	-	-
Automobiles and parts	24,947	25,087	-	-
Food and beverages	23,109	23,304	-	-
Household Goods	96,481	93,094	38,977	41,111
Healthcare	81,573	71,273	43,378	39,847
Media	46,670	45,228	-	-
Travel and leisure	49,851	46,283	-	-
Food and Drug Retailers	-	-	64,847	66,173
Telecommunications	25,385	22,975	27,018	19,893
Electricity	-	-	42,510	39,865
Utilities	77,349	60,651	101,632	101,240
Banks	22,216	25,054	24,178	25,054
Insurance	26,108	23,666	24,284	20,004
Financial services	25,531	22,886	-	-
Real Estate Investment Trusts	27,237	20,111	95,057	89,258
Diversified Collective Investments	154,736	141,699	209,357	198,989
North America	367,084	325,755	57,720	49,488
Europe	82,736	82,000	-	-
Japan	46,058	43,000	-	-
Asia Pacific	78,386	79,963	42,900	49,171
Other overseas	170,058	160,778	46,500	49,538
Property – United Kingdom	199,887	179,736	157,088	149,696
Cash products	106,000	106,000	-	-
	6,922,933	6,107,761	6,029,272	5,960,037

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 2014

10	Tangible assets	Fixtures and fittings	Total
		£	£
	Cost		
	At 1 January 2014	52,781	52,781
	Additions	2,306	2,306
	At 31 December 2014	55,087	55,087
	Depreciation		
	At 1 January 2014	43,431	43,431
	Charge for the year	4,463	4,463
	At 31 December 2014	47,894	47,894
	Net Book Value at 31 December 2014	7,193	7,193
	Net Book Value at 31 December 2013	9,350	9,350
11	Funds and technical provisions	Long term business provision	Fund for future appropriations
		£	£
	At 1 January 2014	5,068,901	1,272,598
	Transfer to the technical account	742,540	57,973
	At 31 December 2014	5,811,441	1,330,571

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

Future rate of interest earned	with profit policies	1.50%	(2013 – 2.50%)
	Non-profit policies	1.75%	(2013 – 2.75%)
Mortality			110% English Life Tables No 14

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2014

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 2014 and 2013 are as follows:

	2014	2013
	£	£
Fund for future appropriations	1,330,571	1,272,598
Asset admissibility rules	(13,193)	(15,350)
Resilience reserve	(261,141)	(286,523)
Expense reserve	(289,204)	(240,906)
Total available capital resources	<u>767,033</u>	<u>729,819</u>

Total available capital resources at the end of 2014 are 272% of the required minimum margin.

The movement in the available capital resources during 2014 is analysed as follow:

	2014
	£'000
Starting available capital resources	730
Change in assumptions in the valuation basis	(855)
Economic factors – investments	876
Economic factors – expenses	8
Surplus on new business	15
Surplus on surrenders	14
Surplus on remaining demographic items	115
Cost of reversionary bonus above margins set aside for bonus	(92)
Interim and terminal bonuses paid on maturities	(44)
Available capital resources at end of year	<u>767</u>

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2014

12 Realistic Reporting continued/.....

Risks

Approximately 71% 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 24% in equities (direct holdings and collective investment schemes). 20% of these are UK equities while 4% are overseas equities. The equities are sensitive to market and currency movements. 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 of 94% UK government bonds at the valuation date, we have allowed for credit risk on the remaining 6% by reducing their yields. 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 for risk. The overall yield figure for the assets is subject to a maximum rate set out in IPRU ((FSOC) Appendix 5 Section 10 (9). The lesser of the yield on assets and the maxima 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 0.44%. It was the scenario with the fall in bond yields that produced the greater change, and this was modelled in the valuation by reducing the valuation interest rate by 0.41% for both premium paying and paid up policies. The increase in the value of assets (£228K) less the increase in the value of liabilities (£489K) resulted in a resilience reserve of £261K.

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 0.36% 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 not covered by the above expense margins and so a closed fund expense overrun reserve of £125K is required. A reserve of £30K is required for the costs of redundancy and any other costs of closing to new business not covered by the expense margins. A further £134K 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 £289K.

Mortality investigations have been carried out for the 2011, 2012, 2013 and 2014 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 2014 or 2013.

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2014

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 (2013: £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 £27,255 (2013: £23,266) and the Society charged Careys £8,666 (2013: £8,417) in respect of these common overheads. This sharing of costs enables economies of scale to be realised. At the year end the sum of £848 (2013: £662) 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 £1,071 (2013: £1,044) and Endeavour Partnership LLP, a legal firm in which Jamie Brown is a partner, provided legal services totalling £180 (2013: £1,703). 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.

	2014		2013	
	Number of persons	Sum assured	Number of persons	Sum assured
	£	£	£	£
Life assurance and endowment policies:				
Premiums paid	5	3,999	6	4,049
Total sum assured at 31 December	5	68,300	6	68,717

15 Pension costs

During the year the Society paid £4,230 (2013: £4,028) 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 2014 there were no outstanding or prepaid contributions (2013: £Nil).