

**The Kensington Friendly Collecting Society Limited  
Trading as Tees Mutual  
(FRN: 110058)**

**114th Annual Report  
of the Committee of Management  
for the Year Ended 31 December 2018**

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

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**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Committee of Management and Independent Advisors**  
**for the Year Ended 31 December 2018**

<b>Registered Office</b>	1 Kensington Road Middlesbrough TS5 6AL		
<b><u>Committee of Management</u></b>	<b>Non-Executive Directors</b>	<b>First Election</b>	<b>Last Re-election</b>
Chair	Mark Brooks	June 2005	June 2018
	Peter McTiernan (retired June 2018)	June 2006	June 2017
Vice Chair	Jamie Brown	June 2011	June 2018
Senior Independent Director	Christine Scott	June 2011	June 2018
	Gary Ferguson	June 2012	June 2018
	Debra Barker	June 2015	June 2018
	Gillian Dobson	June 2015	June 2018
	Andrew Douthwaite	June 2017	June 2018
	Dominic Gardner		Seeking election at the 2019 AGM
	<b>Executive Directors</b>		
	Philip Carey	June 2006	June 2018
	Brian Douglass	June 2012	June 2018
<b>Chief Executive</b>	Philip A Carey 1 Kensington Road Middlesbrough TS5 6AL		
<b>Company Secretary</b>	Brian H Douglass 1 Kensington Road Middlesbrough TS5 6AL		
<b>Internal Auditor</b>	Jacqueline Allenby 1 Kensington Road Middlesbrough TS5 6AL		
<b><u>Professional Advisors</u></b>			
<b>Appropriate Actuary</b>	Christopher Critchlow OAC plc 141-142 Fenchurch Street London EC3M 6BL		
<b>External Auditors</b>	Anderson Barrowcliff LLP 3 Kingfisher Court Bowesfield Park Stockton on Tees TS18 3EX		
<b>Solicitors</b>	Endeavour Partnership LLP Tobias House St Marks Court Teesdale Business Park Thornaby on Tees TS17 6QW		

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Committee of Management and Independent Advisors**  
**for the Year Ended 31 December 2018**

**Professional Advisors** continued/.....

**Investment Managers** LGT Vestra LLP  
14 Cornhill  
London  
EC3V 3NR

**Bankers** Yorkshire Bank  
Central Branch  
7 Linthorpe Road  
Middlesbrough  
TS1 1RF

**Compliance Consultants** David Williams  
Haven Risk Management Limited  
P O Box 19  
Chipping Campden  
GL55 6YX

Geoffrey Spencer  
Mutual Governance Limited  
Prescot House, 3 High Street  
Prescot  
Liverpool  
L34 3LD

**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@teesmutual.co.uk](mailto:philcarey@teesmutual.co.uk)

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Chair's Report**  
**for the Year Ended 31 December 2018**

Welcome to the Annual Report and Accounts for Tees Mutual for 2018.

Tees Mutual took some small but significant steps forward in our long-term modernisation plan during 2018. The new name and branding, coupled with the launch of a new website and online marketing, is part of a strategy to increase awareness of the Society throughout the Tees region. We are building upon this in 2019 by developing partnerships with local community organisations, such as our sponsorship of Cleveland Schools Football Association and through the launch of the Tees Mutual Community Fund. As part of this modernisation, we are also developing a new operating system that will lead to the launch of a web-based application for use by all agents and back office staff. This will ensure our operations are properly integrated and, in the long term, more efficient and cost-effective. These are exciting times but the board is mindful that investing members' funds into the development of the Society must be effective and prudent, which is why we are delivering on this strategy gradually, rather than by introducing wholesale changes.

There are, of course, some external factors the board is unable to influence. The Brexit impasse and macro-economic events have once again impacted upon the Society's investment returns and, regrettably, the portfolio was 1.4% down over the year. This outcome would have been much worse but for the Society continuing to hold approximately 80% of its assets in UK gilts, which protected the portfolio from far larger falls in equity markets as a whole. Nevertheless, as a consequence of market volatility, the Society's solvency position reduced from £942,000 to £586,000. Another factor that reduced solvency was the strain caused by the new business the Society was able to attract. The volume of new business was 32% higher in 2018 than in 2017 and allowance for new policyholders' future benefits had to be reserved in this year's accounts. In acknowledging this fact, I am delighted that the agents and their supervisors achieved this outcome, and I thank them for their hard work and determination in sourcing new members.

Overall, 2018 was a satisfactory year. We made progress in those areas in which the board and our employees can influence the direction of the Society and I am confident that the actions we are taking will safeguard the Society for the next generation of policyholders. I am mindful that both the Financial Conduct Authority and the Prudential Regulation Authority are concerned about firms having good culture and governance. This is something the board takes very seriously and I am delighted that in 2018 we were able to recruit Dominic Gardner as a co-opted board member who is seeking election to the board at the AGM. Dominic is a Chartered Accountant and managing director of a national and international road repair contractor and the Society is delighted to be able to call on both his professional and business skills.

In addition, I would like to thank all my board colleagues for their continued support in ensuring that the Society is delivering fair outcomes for our members.

Finally, I would like to extend my thanks to all the employees and advisors of Tees Mutual who have delivered on our objectives for 2018.

Mark Brooks  
Chair

Date: 9 May 2019

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Chief Executive's Report**  
**for the Year Ended 31 December 2018**

The Tees Mutual executive team focused on three key areas during 2018 – technology, business development and compliance. My report will take a closer look at our progress in each of these areas.

Back in 2007, the Society purchased the Microsoft Access database management system, which has served our needs well for over a decade. However, this system is now creaking around the seams and there is a duplication of tasks across many processes. Additionally, the need to provide compliance audit trails to verify that certain regulatory responsibilities have been completed has meant that agents and staff have been increasingly overwhelmed by the volume of paperwork required. As a result of this, and after much deliberation, the board approved the purchase of a new web-based system and we have engaged Sapere Software, which is based on Teesside, to develop this for us. This is a significant project and will fundamentally change the operational processes of the business. Costs are being shared with Careys and it is hoped that the system will be trialled this autumn, with a full rollout in early 2020.

As the Chair notes, new business volumes increased by 32% in 2018. This was a considerable achievement against the backdrop of Universal Credit being introduced across our region and the challenges this has brought with it. This additional business has been sourced by both the agents themselves and the development of new agencies in Northallerton and Hartlepool. I am extremely grateful to all our agents and staff for helping us to continue moving forward in such an encouraging manner. In addition to this, we have been actively promoting the Society on social media and across traditional media outlets. However, the new website and the white label product which I discussed in my report last year have not brought the immediate returns we had hoped for. It became evident as the year progressed that the aim of being an online insurance distributor within just 12 months was too ambitious an objective for a firm of our size. However, the board recognises the long-term importance of developing an online distribution channel and will work towards this objective, within the allocated marketing budget.

The executive team has spent a significant amount of time in ensuring compliance with the General Data Protection Regulation (GDPR), the Insurance Distribution Directive (IDD) and the Key Information Document (KID). In implementing the required changes the Society incurred additional actuarial, legal and consultancy fees. One of the positive outcomes of the IDD is that the Society has been able to revamp its sales process for new business and the new proposal form and supporting literature is a significant improvement. However, the IDD also requires potential members to pass an “appropriateness test” before they can engage with the Society. This test involves potential members disclosing their educational achievements and experience of other financial products before they can be signed off as having the capacity to purchase a Tees Mutual product. It could be argued that this is both disproportionate and unnecessary when the average weekly premium for a Tees Mutual member is around the same price as a lottery ticket. Similarly, the new KID document is designed to inform consumers about the costs and charges associated with Tees Mutual products. While it is important that members have full disclosure, this document is difficult for even the most sophisticated of investors to comprehend and in my view does not help members to understand the cost of their Tees Mutual policies. Designing regulations that are appropriate and proportionate across a diverse sector is a difficult challenge, but it is frustrating for firms when regulations are imposed that are both expensive to implement and fail to deliver their intended objectives.

I would like to thank all my colleagues and advisors at Tees Mutual for their hard work and support during 2018.

Philip Carey

Date: 9 May 2019

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Strategic Report of the Committee of Management**  
**for the Year Ended 31 December 2018**

The Committee of Management of The Kensington Friendly Collecting Society Limited presents its Strategic Report for the Society for the year ended 31 December 2018. On 5 February 2018 the Society rebranded by launching the trading name of Tees Mutual.

### **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 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. However, the Committee of Management also recognise that customer behaviour is changing and so are developing plans to broaden the product base and the distribution channels that the Society operates.

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 ([info@teesmutual.co.uk](mailto:info@teesmutual.co.uk)).

### **Business Strategy**

During the period under review the Committee of Management continued with the strategy to modernise the Society by offering additional methods to transact with the Society. The committee continues to believe that there still remains a market for the Society's product range and the home collection service, but also acknowledges that customer behaviour is changing with some members preferring to move away from the traditional home collection service in favour of alternative ways of transacting business. With this in mind the Society rebranded in 2018 with the trading name of Tees Mutual, redesigned and relaunched the Society website and commenced a social media marketing campaign to build upon the strong local traditions of the Society and to offer a wider distribution channel for its products.

### **Business Environment**

The business environment that the Society operates in has remained challenging. The majority of the Society's business is conducted in the Teesside area, which during 2018 has remained one of high unemployment, and with an increasing number of members being affected by the Government's welfare sanctions.

### **Results and Performance**

2018 presented challenging conditions for the Society both in terms of the local operating area and the uncertainty and volatility existing in the United Kingdom and world financial markets. The Society is pleased to be able to report an increase in annualised premium income for new business from £83,296 in 2017 to £109,937 in 2018. The Society is also able to report a small overall increase in weekly premium income received of 1.1% (2017: 1.2% increase) and a small increase in the policy count over the year.

Due to the continued volatility in the markets in 2018 the portfolio has been invested pre-dominantly in fixed interest Government stock during the period. At the year end, the portfolio consisted of 83% (2017: 87%) fixed interest and 17% (2017: 13%) equities and equity based funds. As a consequence of the volatility of the markets during the year the portfolio achieved a negative overall investment return of 1.4% in 2018 compared to a positive return of 3.7% in 2017. The Committee of Management is currently working with the Society's advisors, within the agreed risk profile to diversify the portfolio so that returns are not so reliant upon any one asset class and to optimise the returns for the benefit of the members.

The Society continues to closely monitor costs and despite some additional un-budgeted professional fees has been able to maintain the overall level of overheads within budget.

The Committee of Management is pleased to be able to maintain reversionary bonuses at the same rates as those for 2017 and has started on a strategy of re-balancing the terminal bonus rates so that they remain fair to all members. The fund for future appropriations has reduced by £359,910 (2017: decrease of £104,262).

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Strategic Report of the Committee of Management**  
**for the Year Ended 31 December 2018 (continued)**

### **Corporate Social Responsibility**

The Society is aware of the environmental issues facing the world and, although 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**

As set out in the Reports of the Chief Executive and Chair, the Society is in the early years of a strategy to increase awareness of the Society locally and to make alternative distribution channels available for the Society products. As part of this strategy the Society has introduced the trading name of Tees Mutual and is continuing to develop and promote the Society both locally and on-line via the website and social media marketing. As part of this strategy the Society has launched the Tees Mutual Community Fund that aims to assist projects undertaken by small local community groups and charities. The longer term aim is to increase membership and income of the Society for the benefit of the members.

The above developments add to the measures already taken over the last few years that include:

- The introduction a new set of premium rate tables. The new rate tables erased the imbalances of the previous rate tables and help to ensure that all members, irrespective of age and duration, are treated equally and fairly.
- To ensure transparency of charges and to treat members fairly, the charges for the home collection service were separated from the product charges. Members who have taken policies out from 1 January 2015 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 also introduced tables which allow members to take out policies with premiums in excess of current Tax Exempt Savings Policy limits (TESP). The taxable table enables members to increase their death cover in line with increased funeral costs.
- The Society has partnered with PG Mutual to white label their Income Protection Plus policy increasing the range of products that the Society offers.

### **Principal Risks and Uncertainties**

In trying to achieve the objectives of the Society there will always be risks involved. 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:** 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 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.



**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Strategic Report of the Committee of Management**  
**for the Year Ended 31 December 2018 (continued)**

**Principal Risks and Uncertainties - continued**

- Expense risk: During the valuation of the policy liabilities, various assumptions are made regarding the level of future Society costs, the levels of new business generated and lapse rates. There is therefore a risk that future expenses will exceed these allowances, that the levels of new business will not achieve targets and that lapse rates will be higher than anticipated. In order to mitigate these risks the Society regularly reviews these areas against budgets and is constantly reviewing its procedures with a view to achieving efficiency savings and reducing overall costs.

By order of the Board

Brian Douglass  
Company Secretary

Date: 9 May 2019

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Committee of Management Biographies**  
**for the Year Ended 31 December 2018**

**Mark Brooks BSC (Hons) - Chair and Chair of Finance & Investment Committee and Nomination Committee**

Mark was elected on to the Committee of Management at the 2005 annual general meeting and was Chair from September 2009 serving until September 2013, when he took on a compliance role for the Society. Mark re-joined the Committee of Management in 2015 and served as Senior Independent Director from January 2016 to January 2018. He was re-appointed as Chair in September 2017 and has served on all the Society Committees. He currently also chairs the Finance & Investment Committee and the Nomination Committee and 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 more than 25 years.

**Jamie Brown BSc - Vice Chair, Chair of Audit & Risk Committee**

Jamie was elected to the Committee of Management in June 2011, he is currently Chair of the Audit & Risk Committee. He also serves on the Nomination Committee and the Remuneration & Assessment Committee. Jamie was elected Vice-Chair in 2016.

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 agricultural law.

Jamie is also a Board Director of the Nicholas Postgate Catholic Academy Trust which oversees the running of 25 local schools.

**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. Philip served on the Financial Conduct Authority's Small Business Practitioner Panel from September 2015 to October 2016 and is currently chair of the Consumer Credit Association.

**Christine Scott - Senior Independent Director**

Christine was elected on to the Committee of Management in June 2011 and serves on the Finance & Investment Committee, the Remuneration & Assessment Committee and the Nomination Committee, having previously also served on the Audit & Risk Committee. Christine was appointed Senior Independent Director in January 2018. Christine worked in local government finance for over 20 years, including five years as 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 and, 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 its Middlesbrough office. He left the Prudential in 1991 to become an Independent Financial Adviser (IFA) and formed a partnership with several 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.

**The Kensington Friendly Collecting Society Limited**  
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**Committee of Management Biographies**  
**for the Year Ended 31 December 2018 (continued)**

**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 is currently the Compliance Officer of the Society and 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 was latterly a partner in a local firm of accountants. Before 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 brings a vast knowledge and experience of the financial services industry to the Society, having worked in this environment for over 25 years. She spent 21 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 and has also worked in HR and was a business partner to a senior manager of the business.

**Gillian Dobson BA(Hons), ACA DChA**

Gillian is a Chartered Accountant with a diploma in Charity Accounting. She is Director of Finance 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 formerly a trustee of Unite Limited, a mediation and restorative practice charity based in Middlesbrough, and a governor and audit committee member of Prior Pursglove College, in Guisborough.

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

**Andrew Douthwaite BSc**

Andrew joined the Committee of Management in November 2016 and also serves on the Audit & Risk Committee and the Finance & Investment Committee. After obtaining a degree in Software Engineering from Leeds Metropolitan University, Andrew was employed in security centric application and web developer positions as well as roles within the telecommunications industry, before moving into advanced networking and cyber security at his current company, where he is now Chief Technology Officer.

**Dominic Gardner BA(Hons) ACA**

Dominic lives in Middlesbrough with his wife and four children and has been Managing Director of Sunderland based road repair specialist Velocity UK Ltd since 2013, having previously held the posts of Financial Controller and Finance Director at Velocity. Dominic holds a degree in Modern History and Politics from the University of Liverpool and qualified as a Chartered Accountant in 2005 whilst working for a small accountancy practice.

Dominic serves on the Audit & Risk Committee and the Remuneration & Assessment Committee.

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Corporate Governance Report**  
**for the Year Ended 31 December 2018**

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: September 2016) (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 individuals, together with the overall economic conditions relevant to the Society and the area it operates in. The Committee believes this method is appropriate to the size and complexity of the Society.
- During the year Peter McTiernan, a Non-Executive Director, had served on the Committee of Management in excess of the nine-year recommendation. Peter retired from the Society at the 2018 annual general meeting. Notwithstanding this, the Committee of Management considered that Peter remained independent throughout his service.

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 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. Notice of the annual general meeting is provided at least 20 working days in advance of the meeting. Members of the Committee of Management will be in attendance at the annual general meeting to answer members' questions.

**Complaints Handling**

The Society has a documented complaints handling procedure and aims to treat its members fairly. The details of this procedure are available on the Society's website.

**The Committee of Management**

As disclosed above one of the Non-Executive Directors retired from the Society and one new Non-Executive Director was appointed during the year. At the year end the Committee of Management comprised ten members, of which eight were Non-Executive members (five male and three female) and two were Executive members.

The respective job descriptions of the Chair, 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 who have a broad range of business experience and skills. Short biographies of the members are set out on pages 8 and 9.

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Corporate Governance Report**  
**for the Year Ended 31 December 2018 (continued)**

**Chair**

Mark Brooks served as Chair throughout the year under review. Mark does not hold any other non-executive roles. Mark has indicated that he is able to devote sufficient time to his role as Chair.

The Chair 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**

Christine Scott served as the Senior Independent Director throughout the year under review. The Senior Independent Director takes the lead role in the performance evaluation of the Chair and also collates Board Members' opinions in order to express concerns or table agenda items other than through the Chair 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 its day-to-day operations.

**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. All committee members are subject to annual re-election. Dominic Gardner who was appointed to the committee during the year is to offer himself for election and all existing members are to offer themselves for re-election at the forthcoming annual general meeting. Following the annual performance evaluation, the Chair confirms that each member remains an effective member of the committee and therefore recommends that they should be re-elected. The Annotated Corporate Governance Code for Mutual Insurers states that a Non-Executive Director's tenure should be for three years before being offered for re-election and that, other than in exceptional circumstances, they should not be re-elected more than twice. This means that the Society would normally regard nine years as being the maximum period for which a Non-Executive Director should serve.

**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. In addition to his role of Chief Executive, Philip Carey is also the Managing Partner of Careys Consumer Credit, a role that was approved by the Committee at the time of his appointment as Chief Executive. Throughout 2018 Mr Carey also served as Chairman of the Consumer Credit Association (CCA). This appointment was approved by the committee at commencement and Mr Carey retains 100% of the fees payable by the CCA.

**Non-Executive Committee Members**

The Non-Executive Members challenge constructively 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 Chair 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 nine years are not to be considered as independent unless the Society can explain why they can be regarded as independent. During the year Peter McTiernan (12 years) had served for more than the nine years. Peter retired from the Society in July 2018. Despite this, the Committee of Management considers that there is no evidence that this has adversely affected his integrity or independence and so considered that he remained independent in spite of the length of service. Peter served on the board during some difficult periods of the economic cycle and his experience was valuable to the executive during the current uncertainties and volatility in world financial markets. The Committee of Management considers that all the Non-Executive Directors as set out on page 1 are independent.

**The Kensington Friendly Collecting Society Limited**  
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**Corporate Governance Report**  
**for the Year Ended 31 December 2018 (continued)**

**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.

**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. All Non-Executives are now 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.

**Committee of Management Meetings**

The Committee of Management met four times in 2018. The table below shows board member attendance at all committees.

	<b>Committee of Management</b>	<b>Finance &amp; Investment</b>	<b>Audit &amp; Risk</b>	<b>Remuneration &amp; Assessment</b>	<b>Nomination</b>	<b>With Profits Committee</b>	<b>Product Oversight &amp; Governance</b>
<b>Attendances possible</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
Mark Brooks	3	4	-	1	1	1	-
Peter McTiernan	2/2	-	0/2	1	-	1	-
Philip Carey	4	4	-	-	1	0	-
Christine Scott	4	4	-	1	1	0	1
Jamie Brown	3	-	2	0	1	1	-
Gary Ferguson	3	3	-	1	-	1	-
Brian Douglass	4	4	3	-	-	1	-
Debra Barker	4	-	3	1	-	1	1
Gillian Dobson	4	-	2	1	-	1	-
Andrew Douthwaite	1	4	1	1	-	1	-
Dominic Gardner	1/1	-	-	-	-	-	-

**Society Secretary**

The role of the Chief Executive and the Company Secretary are split, with the roles carried out by separate people. The Society Secretary, Brian Douglass, is responsible for advising the Committee of Management through the Chair on all governance matters. 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**  
**Trading as Tees Mutual**

**Corporate Governance Report**  
**for the Year Ended 31 December 2018 (continued)**

**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, the Finance & Investment Committee and the Product Oversight and Governance 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 Chair and the Senior Independent Director for the annual evaluation of the performance of the Committee of Management, its sub Committees and the individual members. 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.

Committee 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**  
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**Corporate Governance Report**  
**for the Year Ended 31 December 2018 (continued)**

**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 and Risk 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 2018 the Audit & Risk Committee met three times and comprised the following Members:

Jamie Brown - Chair  
Peter McTiernan – retired July 2018  
Brian Douglass  
Debra Barker  
Gillian Dobson  
Andrew Douthwaite

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 two of the three meetings during 2018 and provided a written report to the meeting she was unable to attend.

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**  
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**Corporate Governance Report**  
**for the Year Ended 31 December 2018 (continued)**

**Activities in 2018**

The Audit & Risk Committee 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 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 nine months.

**Nomination Committee**

This comprises the following:-

Mark Brooks - Chair  
Christine Scott  
Philip Carey  
Jamie Brown

Its terms of reference are available on the Society's website. It met on one occasion during 2018. One new board member was appointed during 2018. The Society does not use an external search consultancy in the recruitment of 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, it 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**  
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**Corporate Governance Report**  
**for the Year Ended 31 December 2018 (continued)**

**Finance & Investment Committee**

This comprises the following:-

Mark Brooks - Chair  
Philip Carey  
Gary Ferguson  
Brian Douglass  
Christine Scott  
Andrew Douthwaite

The committee met on four occasions during 2018. Its terms of reference are available on the Society's website.

During 2018 the committee performed the following tasks:

- Reviewed the Society's investment strategy and financial performance.
- Reviewed the progress of the Society rebrand and the effectiveness of the marketing strategy.
- Consideration of supplier proposals to build a new Customer Relationship Management (CRM) system for the Society.

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.

**Product Oversight & Governance Committee**

This comprises the following:-

Debra Barker – Chair  
Christine Scott  
Gary Ferguson

In response to PRA recommendations and the introduction of the Insurance Distribution Directive the Committee of Management formed this new committee to consider the Society's Treating Customers Fairly responsibilities and to review existing and new products from a risk perspective.

The inaugural meeting of this committee was held during the year and was attended by the Chief Executive, Company Secretary, Internal Auditor and two Non-Executive directors. The meeting considered the initial make-up of the committee and agreed the committee's terms of reference.

In future the committee will consist of three Non-Executive directors with the Chief Executive and Company Secretary attending each meeting along with Society staff as considered necessary.

It is anticipated that the committee will meet at least annually, although additional meetings may be called as considered necessary.

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Report of the Committee of Management**  
**for the Year Ended 31 December 2018**

The Committee of Management presents its annual report and audited financial statements for the Society for the year ended 31 December 2018. This report should be read in conjunction with the Strategic Report set out on pages 5 to 7.

**Members of the Committee of Management**

The Members of the Committee of Management are shown on page 1, and brief biographies on pages 8 and 9. All Members of the Committee of Management with the exception of Peter McTiernan 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 Chair on page 3 and in the Strategic Report on pages 5 to 7.

The overall financial position of the Society as at 31 December 2018 is considered satisfactory bearing in mind the local economic climate and the volatility in the world financial markets.

**Statement of Solvency**

Christopher Critchlow of OAC plc performs the function of Appropriate Actuary. Fees paid to OAC plc are disclosed in note 10 to the financial statements.

As at 31 December 2018, the Society had in the opinion of the Appropriate Actuary 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 has considered the above Statement of Solvency from the Appropriate Actuary 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 this policy.

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Report of the Committee of Management**  
**for the Year Ended 31 December 2018 (continued)**

**Statement as to Disclosure of Information to Auditors**

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; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume the 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**

The external audit has been carried out by Anderson Barrowcliff LLP, Chartered Accountants and Statutory Auditors. They have recently completed their ninth audit and the Committee of Management have carried out a review of their performance and recommend to members their re-appointment.

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

Brian Douglass  
Company Secretary

Date: 9 May 2019

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Remuneration Report**  
**for the Year Ended 31 December 2018**

This report is submitted in respect of the year ended 31 December 2018. A vote to approve the report will be put to the 2019 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 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 enable it 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**

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 experience of the local market, the size of the role and Society and individual performance. In addition, the Society pays pension contributions for the executive members.

With the authority of the Committee of Management, the Chief Executive holds other external Executive and Non-Executive appointments. Details of these are set out on page 11.

The Executive members have continuing service contracts with notice periods set at less than 12 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. 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**  
**Trading as Tees Mutual**

**Remuneration Report**  
**for the Year Ended 31 December 2018 (continued)**

Fees, salaries and benefits of the Committee of Management in 2018 amounted to:

	Fees £	Salary £	Benefits £	Pension £	Total £	2017 £
Peter Hawkins (retired September 2017)	-	-	-	-	-	1,708
Mark Brooks	2,089	-	-	-	<b>2,089</b>	2,347
Peter McTiernan (retired July 2018)	695	-	-	-	<b>695</b>	1,365
Philip Carey	-	27,061	-	5,567	<b>32,628</b>	30,442
Jamie Brown	1,526	-	-	-	<b>1,526</b>	1,849
Christine Scott	2,012	-	-	-	<b>2,012</b>	1,446
Gary Ferguson	1,285	-	-	-	<b>1,285</b>	1,285
Brian Douglass	-	31,162	-	578	<b>31,740</b>	30,924
Debra Barker	2,408	-	-	-	<b>2,408</b>	1,647
Gillian Dobson	1,365	-	-	-	<b>1,365</b>	1,365
Andrew Douthwaite	1,446	-	-	-	<b>1,446</b>	1,354
Dominic Gardner (appointed November 2018)	134	-	-	-	<b>134</b>	-
	<u>12,960</u>	<u>58,223</u>	<u>-</u>	<u>6,145</u>	<u><b>77,328</b></u>	<u>75,732</u>

Christine Scott  
Chair of the Remuneration Committee

Date: 9 May 2019

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Independent Auditor's Report to the Members of**  
**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

## **Opinion**

We have audited the financial statements of The Kensington Friendly Collecting Society Limited for the year ended 31 December 2018 which comprise the Income and Expenditure Account, the Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standards 102 and 103 'The Financial Reporting Standards applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

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

## **Basis of opinion**

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

## **Conclusions relating to going concern**

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

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

## **Key audit matters**

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

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;
- 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; and
- the Society remains in a solvent position.

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Independent Auditor's Report to the Members of**  
**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual (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 £37,000 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 £33,300.

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 £11,500 specifically for the Income and Expenditure Account. Our objective in adopting this approach is to ensure that total detected and undetected audit differences 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 'Independent Actuary' to review and challenge the methodology, assumptions and calculations of the Appropriate Actuary'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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice);
- we carried out analytical procedures and journal entry testing in order to identify and test the risk of error or fraud arising from management override control; and
- the work of the Independent Actuary also allows us to consider the appropriateness of the Statement of Solvency on page 17.

**Other information**

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

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

We have nothing to report in this regard.



**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Independent Auditor's Report to the Members of**  
**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual (continued)**

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Report of the Committee of Management for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Report of the Committee of Management have been prepared in accordance with applicable legal requirements.

**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:

- adequate accounting records have not been kept; or
- a satisfactory system of control has not been maintained; 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.

**- 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 ten 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.

**Responsibilities of the Committee of Management**

As explained more fully in the Committee of Management's responsibilities statement set out on page 18, the Committee of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Independent Auditor's Report to the Members of**  
**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual (continued)**

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

We were appointed by the Committee of Management on 1 December 2010. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 9 years.

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

**Use of our report**

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.

Anderson Barrowcliff LLP  
Statutory Auditor  
Chartered Accountants  
3 Kingfisher Court  
Bowesfield Park  
Stockton on Tees  
TS18 3EX

Date: 9 May 2019

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Income and Expenditure Account**  
**for the Year Ended 31 December 2018**

**Technical Account - long term business**

	Note	2018 £	2017 £
Earned premiums	5	837,154	827,730
Investment income	6	278,432	173,144
Other income		12,976	9,615
Unrealised gains/(losses) on investments	6	(384,010)	121,128
		<u>744,552</u>	<u>1,131,617</u>
Claims incurred	7	896,967	844,937
Changes in other technical provisions	14	(107,526)	120,212
<b>Net operating expenses</b>			
Acquisition expenses	8	107,197	80,306
Administrative costs	8	137,319	121,845
Investment expenses and charges	8	70,505	68,579
Transfer from the fund for future appropriations	14	(359,910)	(104,262)
		<u>744,552</u>	<u>1,131,617</u>
Balance on the technical account - long term business		<u>-</u>	<u>-</u>

As a friendly society, all net earnings are for the benefit of the members and are carried forward within the funds for future appropriations. Accordingly there is no profit for the year shown in the Income and Expenditure Account.

The Society has not presented a Statement of Changes in Equity as there are no equity holders within the Society as it is a mutual organisation.

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

All income and expenditure relates to continuing operations.

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Balance Sheet as at 31 December 2018**

	Note	2018 £	2017 £
<b>Assets</b>			
<b>Investments</b>			
	11		
Land and buildings		175,000	200,000
Investment in subsidiary		1	-
Other financial investments		7,065,741	7,523,542
<b>Debtors</b>			
Debtors arising on direct insurance operations		21,075	32,336
Taxation recoverable		443	862
Amount owed by subsidiary undertaking		1,968	-
<b>Other assets</b>			
Tangible assets	12	18,316	21,165
Intangible assets	13	13,500	-
Cash at bank and in hand		57,908	40,478
<b>Prepayments and accrued income</b>			
Accrued income		34,033	34,499
Prepayments		9,453	11,410
		<u>7,397,438</u>	<u>7,864,292</u>
<b>Liabilities</b>			
<b>Fund for future appropriations</b>			
	14	986,249	1,346,159
<b>Technical provisions</b>			
Long term business provision	14	6,287,647	6,395,173
<b>Creditors</b>			
Taxation and social security		3,601	3,352
Other creditors		119,941	119,608
		<u>7,397,438</u>	<u>7,864,292</u>

The financial statements were approved and authorised for issue by the Committee of Management on 9 May 2019 and were signed on their behalf by:-

Philip Carey

Brian Douglass

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Notes to the Financial Statements for the Year Ended 31 December 2018**

**1 General Information and basis of preparation**

The Kensington Friendly Collecting Society Limited is a non-directive friendly society incorporated in the United Kingdom. The address of the registered office and place of business is given on page 1 of these financial statements. The nature of the Society's operations and principal activities are set out in the Strategic Report of the Committee of Management on page 5.

The financial statements have been prepared in accordance with applicable accounting standards including financial Reporting Standards 102 and 103 *The Financial Reporting Standards applicable in the United Kingdom and Republic of Ireland (FRS 102 and FRS 103)*, the Friendly Societies Act 1992 and the Friendly Societies (Accounts and Related Provisions) Regulations 1994. The financial statements have been prepared on a going concern basis under the historical cost convention, modified to include certain items at fair value.

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.

The financial statements are prepared in Sterling which is the functional currency of the Society and are rounded to the nearest £1.

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied throughout the year and the preceding year.

**2 Accounting Policies**

**Preparation of consolidated financial statements**

The financial statements contain information about The Kensington Friendly Collecting Society Limited as an individual Society and do not contain consolidated financial information as the parent of the group.

The subsidiary has been excluded on the grounds of immateriality as permitted by FRS102 and the Friendly Societies (Accounts and Related Provisions) Regulations 1994.

**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 movements 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.

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Notes to the Financial Statements for the Year Ended 31 December 2018**

**2 Accounting Policies (continued)**

**Taxation**

Taxation is provided at current rates in respect of the taxable element of the Society's business. As a friendly society the Society is subject to tax on only part of its life and endowment business, on realised gains on the disposal of its investments and in respect of the increase/decrease in the value of its listed fixed interest securities.

**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 relate.

**Investments**

The Society classifies all of its investments upon initial recognition as financial assets at fair value and subsequent valuation movements are recognised in the Income and Expenditure account.

Financial assets at fair value include listed investments. Fair value is based upon 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.

Investment properties for which fair value can be measured reliably without undue cost or effort are measured at fair value at each reporting date with changes in fair value recognised in income or expenditure.

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

**Investment in subsidiary**

The investment in the subsidiary is recognised at cost.

**Debtors arising on direct insurance operations**

Debtors arising on direct insurance operations are measured at undiscounted amounts receivable.

**Depreciation**

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

Fixtures & fittings	10% and 25% per annum on straight line basis
---------------------	--

**Amortisation**

Amortisation is provided to write off the cost of any intangible assets over their useful lives. No amortisation is provided for assets under the course of construction.

**Impairment**

Assets not measured at fair value are reviewed for any indication that the asset may be impaired at each balance sheet date. If such indication exists, the recoverable amount of the asset is estimated and compared to the carrying amount. Where the carrying amount exceeds its recoverable amount, an impairment loss is recognised in income or expenditure.

**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.

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Notes to the Financial Statements for the Year Ended 31 December 2018**

**2 Accounting Policies (continued)**

**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.

**Cash flow statement**

As a mutual life assurance society, the Society is exempt from the requirements under FRS 102 7.1A to provide a cash flow statement.

**Critical accounting estimates and judgements**

In the application of the Society's accounting policies, the Committee of Management are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based upon historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the opinion of the Committee of Management there are two key estimates and assumptions which could have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities. These are discussed in more detail below.

**Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below.

**(i) Valuation of long term insurance contract liabilities:**

The liability relating to long-term insurance contracts is based on assumptions reflecting the current best estimate and margins for adverse deviations. The assumptions used for mortality are based upon standard industry tables, adjusted where appropriate to reflect the Society's own experience. The assumptions used for investment returns, expenses and persistency are based on current market yields, product characteristics and relevant experience. The assumptions used for discount rates are based on current market yields adjusted for the Society's own risk exposure. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty.

**(ii) Fair value estimations:**

The Committee of Management use their judgement in selecting appropriate valuation techniques. The investments are all held on a recognised stock market and are valued at the mid-market price. The freehold property was valued by a chartered surveyor in March 2019 and the valuation has been reviewed by the directors as explained in note 11.

**3 Capital Management**

***Policies and objectives***

The Society's objectives in managing capital are:

- (i) The Society will always have sufficient funds available to meet its contractual obligations to policyholders
- (ii) The Society's exposure to risk is managed to ensure that the capital resources available always meet the minimum capital requirements set out by the PRA
- (iii) To give confidence to policyholders and other stakeholders who have relationships with the Society and
- (iv) The Society will have sufficient capital resources available to fund its growth expectations.

These objectives are reviewed at least annually, and the capital position is monitored to ensure that sufficient capital is available to the Society.

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Notes to the Financial Statements for the Year Ended 31 December 2018**

**3 Capital Management (continued)**

***Policies and objectives (continued)***

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

The capital requirement is the statutory minimum capital requirement. The statutory minimum capital requirement is based on EU directives.

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

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

The Society is a mutual organisation with no shareholders. As such all of its capital belongs to its members.

**Capital Statement**

The following table sets out the capital available:

	2018		2017	
	£	£	£	£
Fund for future appropriations	986,249		1,346,159	
Less: Inadmissible assets	(5,250)		(6,000)	
Resilience reserve	(69,800)		(19,336)	
Expense reserve	(40,000)		(90,000)	
		<u>871,199</u>		<u>1,230,823</u>
Capital available to meet regulatory capital requirements		<u>871,199</u>		<u>1,230,823</u>
Regulatory capital requirements		<u>285,393</u>		<u>288,391</u>
<b>Capital in excess of regulatory capital requirements</b>		<u>585,806</u>		<u>942,432</u>

The movement in capital resources is as follows:

	2018	2017
	£000s	£000s
Capital available as at 1 January	1,231	1,061
Change in assumptions in the valuation basis	-	(147)
Economic factors – investments	(230)	182
Economic factors – expenses	(6)	37
(Cost)/surplus on new business	(147)	(123)
Surplus on exits	93	12
Cost of reversionary bonus above margins set aside for bonus	(70)	(66)
Change in contingency reserves	-	275
<b>Capital available as at 31 December</b>	<u>871</u>	<u>1,231</u>

The assets available for the Required Minimum Margin are 305% of the RMM (427% last year).



**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Notes to the Financial Statements for the Year Ended 31 December 2018**

**3 Capital management (continued)**

***Measurement and monitoring of capital***

The capital position of the Society is monitored on a regular basis and reviewed regularly by the Committee of Management.

In the event that sufficient capital is not available, actions would be taken either to raise additional capital or to reduce the amount of risk accepted thereby reducing the capital requirement through, for example, reinsurance, reducing business volumes or a change in investment strategy.

***Available capital – Long-term insurance contracts***

The liabilities in respect of the Society's business are determined in accordance with the regulations of the PRA. The assets are taken at market value. The whole of the available capital resources is available to meet the regulatory and other solvency requirements of the fund.

**Sensitivity of long-term insurance contract liabilities**

The value of the long-term insurance contract liabilities is sensitive to changes in market conditions and to the demographic assumptions used in the calculations, such as mortality.

Market conditions

Assumptions are made about future investment returns and interest rates when valuing the liabilities, based on current market conditions. These also have an effect on the value placed on the assets held to support the liabilities. An adverse change in market conditions may therefore reduce the level of the available capital resources.

Demographic assumptions

Changes in mortality, lapse or expense experience by the Society may result in the need to change the assumptions used to value the liabilities. This may increase or reduce the value placed on liabilities. The sensitivity of the liabilities to changes in the assumptions varies according to the type of business. For example, a change in mortality rates has a greater impact on whole life liabilities than endowments.

The table below sets out the Society's exposure to life insurance risk:

	<b>2018</b>	2017
	£	£
Whole of life	<b>3,368,306</b>	3,252,208
Endowment	<b>1,282,002</b>	1,379,067
Quinquennial	<b>1,637,339</b>	1,763,898
<b>Total</b>	<b>6,287,647</b>	6,395,173

The table shows the impact of movements in key assumptions on the long term contract liabilities:

	<b>Change in liabilities (£000s)</b>
Decrease in valuation interest by 0.5%	<b>706</b>
Increase in expenses allowance by 5%	<b>335</b>
Increase in mortality rates by 15%	<b>202</b>

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Notes to the Financial Statements for the Year Ended 31 December 2018**

**4 Risk management and control**

FRS 103 requires a Society which issues insurance contracts to make certain disclosures regarding their insurance risk. The required information is summarised below.

- a) Objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks

The Society is principally exposed to risks in relation to lapses, expenses, market, credit and liquidity.

The objectives of the Society in managing these risks is to minimise those risks (such as expenses) which are seen as primarily negative in their impact on the Society or policyholders and to carefully monitor and balance those risks (such as market risk) where a positive outcome is of benefit to the members and policyholders.

The principal methods involve:

- i. Holding reserves to meet the obligations of the Society
  - ii. Monitoring and managing internal and externally generated reports that provide information about the performance or level of key indicators
  - iii. Closely matching investments to policy liabilities where those liabilities are tightly defined
  - iv. Actively managing the investment portfolio after taking advice from the appropriate actuary about the nature and term of the liabilities and the parameters appropriate to limit the downside risks
- b) Nature and extent of risks arising from insurance contracts

**Insurance risk**

Insurance risk is risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, policyholder behaviour and expenses.

The Society sells insurance products. The types of products include whole life and endowment insurance. A variety of assumptions are made when a product is designed and priced. The assumptions are based on Society and industry past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

These assumptions are used to develop the initial measurement of insurance contract liabilities and form the insurance risk. The setting of these assumptions requires a significant amount of professional judgement and therefore, actual experience may be materially different from assumed experience which results in the nature of the insurance risk exposure.

To the extent that emerging experience is more favourable than assumed in the measurement of insurance contract liabilities, surplus will emerge. If emerging experience is less favourable, losses will result. The Society's objective is to ensure that sufficient insurance contract reserves have been set up to cover these obligations.

The following risk factors are components of insurance risk:

*Mortality risk*

This is the risk that death claims are different than assumed in pricing or the most recent valuation of actuarial liabilities, adversely impacting income. This risk includes both mis-estimation in pricing, and adverse experience resulting from any combination of weak underwriting, anti-selection by policyholders, or improper claims assessment.

*Lapse risk*

This is the risk that withdrawals and lapse rates are different than assumed. This risk can occur on both insurance and investment contracts. Lapses that are higher than assumed are usually detrimental, especially if they occur prior to recovering costs to issue a policy, or at a time when the guarantees underlying the with-profits contracts are onerous.

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Notes to the Financial Statements for the Year Ended 31 December 2018**

**4 Risk management and control (continued)**

*Expense risk*

This is the risk that maintenance expense levels will be higher than assumed. This can arise from an increase in the unit costs or an increase in expense inflation relating to economic conditions.

The actuarial assumptions used in the measurement of insurance contract liabilities take insurance risk factors into account as discussed above. Sensitivities to changes in actuarial assumptions are provided in note 3.

**Credit risk**

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to fulfil its payment obligations. Worsening or continued poor economic conditions could result in borrower or counterparty defaults or downgrades, and could lead to increased provisions or impairments related to the Society's invested assets and an increase in provisions for future credit impairments to be included in insurance contract liabilities. The board approved Investment Policy sets out the policies and procedures to manage these risks. Specific guidelines have been established to minimise undue concentration of exposure to a single debtor or a group of related debtors, to limit the purchase of fixed income securities to investment-grade assets, and to specify minimum and/or maximum limits for fixed income securities by credit quality ratings.

Asset portfolios are monitored and reviewed regularly by the board.

**i) Maximum exposure to credit risk**

The Society's maximum exposure to credit risk related to financial instruments and other assets is the carrying value of those assets, net of any allowances for losses. The Society's maximum credit exposure is as follows:

	<b>2018</b>	2017
<b>Assets</b>	<b>£</b>	<b>£</b>
Bonds	<b>5,892,968</b>	6,572,158
Equities	<b>1,203,161</b>	984,163
Property	<b>169,750</b>	200,000
Deposits	<b>57,908</b>	40,478
	<hr/>	<hr/>
<b>Total</b>	<b>7,323,787</b>	7,796,799

**ii) Concentration of credit risk**

Concentration of credit risk arises from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics.

The Society has investment targets and limits to ensure that portfolios are widely diversified across asset classes and individual investment risks.

Total exposure includes the sum of the Society's investment in bonds, equities, property, money market instruments and financial instruments.

**Bonds and other fixed-term securities**

Other than constraints imposed by liquidity requirements, there is no upper limit to the amount of the Society's total assets that can be invested in bonds.

The following table provides details of the carrying value of bonds by type.

	<b>2018</b>
	<b>£</b>
UK Government Bonds	<b>5,797,101</b>
Corporate Bonds	<b>95,867</b>
	<hr/>
<b>Total</b>	<b>5,892,968</b>

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Notes to the Financial Statements for the Year Ended 31 December 2018**

**4 Risk management and control (continued)**

Equities

Investments in equities are limited.

Equities currently held are either direct or collectives and split into United Kingdom, Europe or overseas as shown below:

	United Kingdom (£)	Europe (€)	Overseas (£)
Direct	505,095	-	27,758
Collectives	260,813	20,897	388,598
<b>Total</b>	<u>765,908</u>	<u>20,897</u>	<u>416,356</u>

Investment land and buildings

The Society currently only invests in one property which it uses for its Head Office.

**Liquidity risk**

Liquidity risk is the risk that the Society cannot meet its obligations associated with financial liabilities as they fall due. The Society has adopted an appropriate liquidity risk management framework for the management of its liquidity requirements. The Society manages liquidity risk by maintaining a proportion of its assets in cash and investing in marketable securities and by continuously monitoring actual cash flows and matching the maturity profiles of assets and liabilities. Liquidity management ensures that the Society has sufficient access to funds necessary to cover insurance claims, surrenders, withdrawals and maturing liabilities.

There were no changes in the Society's liquidity risk exposure in the financial year nor to the objectives and processes for managing liquidity risk.

**Market risk**

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and other price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities. The objective of the Society in managing its market risk is to ensure risk is managed in line with the Society's risk appetite.

The Society has established policies and procedures in order to manage market risk and methods to measure it.

There were no significant changes in the Society's market risk exposure in the financial year apart from a modest increase in the Society's equity exposure, nor to the objectives, policies and processes for managing market risk.

Below are the key factors that underlie market risk:

**i) Currency risk**

The Society denominates all of its insurance contracts in Sterling.

As part of its investment diversification policy, the Society can hold certain investments denominated in foreign currencies. As a result, foreign exchange risk arises from assets denominated in these currencies.

Currently, all assets denominated in foreign currencies are equities or equity funds. The foreign currency currently held are given in the table below:

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Notes to the Financial Statements for the Year Ended 31 December 2018**

**4 Risk management and control (continued)**

<b>US Dollar</b>	<b>Market value (£)</b>
Direct holdings	15,511
Collectives	169,127
<b>Total</b>	<b>184,638</b>

**ii) Interest rate risk**

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Society is exposed to interest rate risk as the Society invests in long-term debt at both fixed and floating interest rates. The risk is managed by the Society by maintaining an appropriate mix between fixed and floating rate borrowings.

Interest rate risk also exists in products sold by the Society. The Society has no significant concentration of interest rate risk. The Society manages this risk by adopting close asset/liability matching criteria, to minimise the impact of mismatches between asset and liability values arising from interest rate movements.

**iii) Equity market risk**

The Society is exposed to price risk arising from fluctuations in the value of equities as a result of changes in the market prices.

Assets held to provide returns on with profit policies comprise a substantial portion of equity assets. The positive return on these assets is used to provide part of the addition of bonuses to the with profit policies. The risk is managed by the Society by maintaining an appropriate mix of investment instruments and actively monitoring the level of prices in the stock markets.

**Summary of market risk sensitivities**

	<b>Change in surplus assets (£K)</b>
Fixed interest yields fall by 1%	(76)
Equity values fall by 10%	(120)
Fixed interest yields rise by 1%	55
Equity values rise by 10%	120

**iv) Property price risk**

The property price risk arises from changes in the value of the investment properties. This is not significant for the Society as it invests in only one property with a current market value of £175,000.

**5 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.

**6 Investment income**

	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Income from land and buildings	4,964	3,870
Income from listed investments	197,644	188,933
Gains/(losses) on investments realised	75,810	(19,665)
Bank interest	14	6
	<b>278,432</b>	<b>173,144</b>
	<b>2018</b>	<b>2017</b>
	<b>£</b>	<b>£</b>
Unrealised (losses)/gains – financial investments at fair value	(359,010)	121,128
Unrealised losses – land and buildings at fair value	(25,000)	-
	<b>(384,010)</b>	<b>121,128</b>

**The Kensington Friendly Collecting Society Limited**  
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**Notes to the Financial Statements for the Year Ended 31 December 2018**

<b>7</b>	<b>Claims incurred</b>		<b>2018</b>	2017
			<b>£</b>	£
	Deaths		<b>342,990</b>	376,240
	Maturities		<b>227,900</b>	172,869
	Surrenders		<b>165,793</b>	154,452
	Bonuses		<b>84,505</b>	69,505
			<hr/>	<hr/>
			<b>821,188</b>	773,066
	Claims processing expenses		<b>75,779</b>	71,871
			<hr/>	<hr/>
			<b>896,967</b>	844,937
			<hr/> <hr/>	<hr/> <hr/>

<b>8</b>	<b>Expenses</b>		<b>2018</b>	2017
			<b>£</b>	£
	Acquisition expenses		<b>107,197</b>	80,306
	Administration		<b>137,319</b>	121,845
	Investment expenses and charges		<b>70,505</b>	68,579
	Claims processing expenses		<b>75,779</b>	71,871
			<hr/>	<hr/>
			<b>390,800</b>	342,601
			<hr/> <hr/>	<hr/> <hr/>

			<b>2018</b>	2017
			<b>£</b>	£
	Committee and staff remuneration (see below)		<b>235,595</b>	220,258
	Audit		<b>19,956</b>	17,654
	Actuary		<b>42,407</b>	35,154
	Stockbroker		<b>22,696</b>	23,820
	Depreciation		<b>5,617</b>	5,313
	Other overheads		<b>60,984</b>	36,510
	Registration fees and subscriptions		<b>3,545</b>	3,892
			<hr/>	<hr/>
			<b>390,800</b>	342,601
			<hr/> <hr/>	<hr/> <hr/>

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

			<b>2018</b>	2017
	Committee		<b>11</b>	11
	Administration		<b>4</b>	4
	Sales		<b>16</b>	15
			<hr/>	<hr/>
			<b>31</b>	30
			<hr/> <hr/>	<hr/> <hr/>

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Notes to the Financial Statements for the Year Ended 31 December 2018**

**8 Expenses (continued)**

The aggregate payroll costs of these persons were as follows:

	<b>2018</b>	2017
	£	£
Committee Members	<b>71,183</b>	70,533
Staff wages	<b>150,976</b>	137,022
Social security costs	<b>6,593</b>	7,047
Pension contributions	<b>6,843</b>	5,656
	<u><b>235,595</b></u>	<u>220,258</u>

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

	<b>2018</b>	2017
£1 - £5,000	<b>9</b>	9
£25,001 - £30,000	<b>1</b>	1
£30,001 - £35,000	<b>1</b>	1
	<u><b>11</b></u>	<u>11</u>

The Chair received £2,089 (2017: £2,330) and the highest paid member of the committee received £31,162 (2017: £30,627).

The number of committee members to whom retirement benefits were accruing was as follows:

	<b>2018</b>	2017
Money purchase schemes	<b>2</b>	2

**9 Audit fees**

	<b>2018</b>	2017
	£	£
Audit	<b>19,200</b>	17,520
Other	<b>516</b>	480
Under/(over) provision previous year	<b>240</b>	(346)
	<u><b>19,956</b></u>	<u>17,654</u>

**10 Actuaries fees**

Christopher Critchlow of OAC plc performs the function of Appropriate Actuary.

The Society has requested him to furnish it with particulars required under Section 77 of the Friendly Societies Act 1992. Mr Critchlow 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 OAC plc, which are shown as follows:-

	<b>2018</b>	2017
	£	£
Valuation work	<b>35,280</b>	33,480
Special work	<b>7,127</b>	1,674
	<u><b>42,407</b></u>	<u>35,154</u>

**The Kensington Friendly Collecting Society Limited**  
**Trading as Tees Mutual**

**Notes to the Financial Statements for the Year Ended 31 December 2018**

**11 Investments**

**Land and buildings**

<b>Valuation</b>	<b>2018</b>
	<b>£</b>
At 31 January 2018	200,000
Deficit on revaluation	(25,000)
	200,000
<b>At 31 December 2018</b>	<b>175,000</b>
	<b>175,000</b>

This comprises one freehold building, mainly occupied by the Society for its own use and partially let to third parties, income from which is included in investment income (note 6).

On 29 April 2019 the directors obtained an independent market valuation of the freehold property prepared by Thomas Stevenson, Chartered Surveyors, at £175,000. The valuation was carried out in accordance with the RICS Valuation Standards. 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 2018 was £336,610 (2017 - £336,610).

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

**Investment in subsidiary**

<b>Cost</b>	<b>2018</b>
	<b>£</b>
Additions	1
	1
<b>At 31 December 2018</b>	<b>1</b>
	<b>1</b>
<b>Net Book Value at 31 December 2018</b>	<b>1</b>
	<b>1</b>

The Society's investment at the Balance Sheet date in the share capital of the subsidiary company is as follows:

**Tees Mutual Services Limited** (registered in England and Wales)

Registered Office: 1 Kensington Road, Middlesbrough TS5 6AL

Nature of business: Appointed representative for Pharmaceutical and General Provident Society Limited

Class of shares:	%
	Holding
Ordinary shares	100

	<b>2018</b>
	<b>£</b>
Aggregate capital and reserves	(1,968)
Loss of the period	(1,969)
	<b>(3,937)</b>
	<b>(3,937)</b>

The subsidiary company was incorporated on 2 October 2017 and commenced to trade on 5 February 2018.

In the opinion of the Committee of Management the aggregate value of the assets of the Society consisting of shares in and amounts owing from the subsidiary company is not less than the aggregate of the amounts at which those assets are stated/included in the Society's balance sheet.



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**Notes to the Financial Statements for the Year Ended 31 December 2018**

**11 Investments (continued)**

**Other financial investments**

	2018		2017	
	Market Value	Cost	Market Value	Cost
	£	£	£	£
British Funds	5,768,113	5,744,416	6,437,736	6,193,928
Fixed Interest	94,467	102,343	101,643	102,343
Basic materials and basic resources	14,919	14,010	15,764	14,010
Oil and Gas Producers	97,453	98,444	39,524	36,269
Industrials	37,220	54,244	49,038	52,365
Food and beverages	10,901	10,037	10,619	10,037
Household Goods	79,116	99,844	66,373	66,243
Healthcare	29,888	27,867	39,941	42,306
Travel & Leisure	28,318	26,831	-	-
Technology	-	-	5,821	5,434
Telecommunications	-	-	14,096	12,380
Utilities	-	-	8,013	9,747
Banks	57,830	71,482	36,026	34,092
Insurance	90,432	113,395	49,911	45,836
Financial services	3,705	7,123	7,202	7,122
Travel & Leisure (USA)	12,178	13,526	-	-
Diversified Collective Investments	278,375	297,989	180,599	174,068
North America	204,440	179,777	184,233	155,988
Europe	20,897	19,000	43,044	39,000
Japan	8,624	9,970	-	-
Asia Pacific	46,157	42,395	24,672	22,455
Other overseas	144,958	140,180	117,198	103,924
Property – United Kingdom	37,750	38,120	74,633	68,658
Property – Other overseas	-	-	17,456	13,581
	<b>7,065,741</b>	<b>7,110,993</b>	<b>7,523,542</b>	<b>7,209,786</b>

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

**12 Tangible assets**

	Fixtures and fittings	Total
	£	£
<b>Cost</b>		
At 1 January 2018	74,403	74,403
Additions	2,768	2,768
<b>At 31 December 2018</b>	<b>77,171</b>	<b>77,171</b>
<b>Depreciation</b>		
At 1 January 2018	53,238	53,238
Charge for the year	5,617	5,617
<b>At 31 December 2018</b>	<b>58,855</b>	<b>58,855</b>
<b>Net Book Value at 31 December 2018</b>	<b>18,316</b>	<b>18,316</b>
Net Book Value at 31 December 2017	21,165	21,165

**The Kensington Friendly Collecting Society Limited**  
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**Notes to the Financial Statements for the Year Ended 31 December 2018**

**13 Intangible assets**

	<b>CRM System</b>	<b>Total</b>
	£	£
<b>Cost</b>		
At 1 January 2018	-	-
Addition	13,500	13,500
	<hr/>	<hr/>
<b>At 31 December 2018</b>	<b>13,500</b>	<b>13,500</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Net Book Value at 31 December 2018</b>	<b>13,500</b>	<b>13,500</b>
	<hr/> <hr/>	<hr/> <hr/>
Net Book Value at 31 December 2017	-	-
	<hr/> <hr/>	<hr/> <hr/>

The Society is in the course of developing a web-based CRM system. This asset is in the course of construction and the costs are to be shared equally by the Society and Careys (related party).

**14 Funds and technical provisions**

	<b>Long term business provision</b>	<b>Fund for future appropriations</b>
	£	£
At 1 January 2018	6,395,173	1,346,159
Transfer from the technical account	(107,526)	(359,910)
	<hr/>	<hr/>
<b>At 31 December 2018</b>	<b>6,287,647</b>	<b>986,249</b>
	<hr/> <hr/>	<hr/> <hr/>

**15 Long-term business provision**

**a) Analysis of insurance contract liabilities**

	<b>2018</b>	2017
	£	£
Participating insurance contract liabilities	5,965,267	6,077,762
Non-participating insurance contract liabilities	322,380	317,411
	<hr/>	<hr/>
<b>Total insurance contract liabilities</b>	<b>6,287,647</b>	<b>6,395,173</b>
	<hr/> <hr/>	<hr/> <hr/>

**b) Movement in long-term insurance contract liabilities**

	<b>2018</b>	2017
	£	£
Balance at 1 January	6,395,173	6,274,961
Valuation interest rate change	-	147,049
Policy movements	(177,151)	(93,034)
Cost of bonus	69,625	66,197
	<hr/>	<hr/>
<b>Balance at 31 December</b>	<b>6,287,647</b>	<b>6,395,173</b>
	<hr/> <hr/>	<hr/> <hr/>

**16 Long-term insurance liabilities valuation assumptions**

***Interest rates***

The gross interest rate without any adjustments for tax or bonus is calculated by allocating appropriate assets to the policy groups shown below. The weighted average yield for that group is then calculated. For fixed interest stocks, the yield is reduced to the yield on a gilt of equivalent duration to allow for the additional credit risk. A reduction is made to the yield on equities of 0.5% per annum. The weighted average yield is further reduced by 2.5% to allow for risk as specified by the regulations.

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**Notes to the Financial Statements for the Year Ended 31 December 2018**

**16 Long-term insurance liabilities valuation assumptions (continued)**

***Interest rates (continued)***

The weighted average yields based on the appropriate asset mix are then compared to the maximum yield allowed by the regulations. Where the weighted average yield is greater than the maximum the yield is reduced to the maximum. The maximum yield allowed by the regulations was 1.60% after allowing for the 2.5% risk adjustment.

An expense allowance of 0.36% is deducted from the rate together with an allowance for bonus of 0.25% for with profits policies.

The resultant interest rates were:

		<b>Interest rate</b>
With profit premium paying	0.95%	(2017 : 0.95%)
Non-profit paid up	1.20%	(2017 : 1.20%)

***Mortality assumptions***

A mortality investigation was carried out into the 2018 experience on the Society's policies. The results were compared with the previous mortality investigation which used data from the preceding three financial years. The mortality assumptions used in the statutory valuation were:

- 110% of English Life Table 14 mortality (ELT14)
- The same proportions of ELT 14 for premium paying policies are applied to paid up policy valuations.

English Life Table No.14 is a decennial life table for males and females based on the mortality experience of the population of England and Wales during the three years from 1980-1982.

***Expenses***

The net premium method is used to value the liabilities.

For with profit policies, the net premium is restricted to a proportion of the office premium to give a margin for future expenses and for future bonuses. Non-profit policies are valued on the same assumptions but do not allow for future bonuses in the level of restriction applied.

- 0.36% of funds under management charge (deducted from the interest rate assumption)
- Plus 25% of all endowment and whole of life premiums payable and
- 20% of all quinquennial premiums payable
- Separate reserves for additional costs on closure to new business in 12 months and any new business expenses not covered for the coming 12 months
- An appropriate Retail Price Index (RPI) assumption for inflation purposes of 3.70%.

The closed fund expenses were not covered by the expense margins above and a reserve of £40,000 (2017: £90,000) made.

There was no requirement to hold an expense overrun reserve.

***Persistency – lapses and surrenders***

No allowance for lapses and surrenders has been included except in the assessment of the expense reserve.

**17 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 (2017: £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 £26,983 (2017: £21,798) and the Society charged Careys £20,473 (2017: £30,145) in respect of these common overheads. This sharing of costs enables economies of scale to be realised. At the year end the sum of £3,934 (2017: £2,980) was due from the Society to Careys and Careys owed the Society £2,749 (2017: £1,984).

**The Kensington Friendly Collecting Society Limited**  
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**Notes to the Financial Statements for the Year Ended 31 December 2018**

**17 Transactions with related parties (continued)**

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.

Certain 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.

**18 Pension costs**

During the year the Society paid £6,843 (2017: £5,656) into defined contribution pension schemes for the benefit of certain employees. The assets of the schemes are held separately to the assets of the Society in independently administered funds. At 31 December 2018 there were £373 outstanding contributions (2017: £148).

**19 Financial instruments**

The carrying amounts of the financial instruments are as follows:

	<b>2018</b>	2017
	<b>£</b>	£
<b>Financial assets</b>		
Measured at fair value through income or expenditure		
- Fixed asset listed investments ( note 11)	<b>7,065,741</b>	7,523,542
Debt instruments measured at undiscounted amounts receivable		
- Debtors arising on direct insurance operations	<b>21,075</b>	32,336

**20 Capital commitments**

	<b>2018</b>	2017
	<b>£</b>	£
Contracted for but not provided for in the financial statements	<b>20,250</b>	-

The Society has entered into a contract with Sapere Software Limited to develop a web-based CRM system. The costs are to be shared equally by the Society and Careys (related party).