

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

115th Annual Report
of the Committee of Management
for the Year Ended 31 December 2019

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

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The Kensington Friendly Collecting Society Limited
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Committee of Management and Independent Advisors
for the Year Ended 31 December 2019

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

The Kensington Friendly Collecting Society Limited
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Committee of Management and Independent Advisors
for the Year Ended 31 December 2019

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 Haven Risk Management Limited
P O Box 19
Chipping Campden
GL55 6YX

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

The Kensington Friendly Collecting Society Limited
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Chair's Report for the Year Ended 31 December 2019

Welcome to Tees Mutual's Annual Report and Accounts for 2019.

The coronavirus pandemic has been a hugely challenging time for the Society and our response to these challenges will be covered in more detail in the Chief Executive's report.

However, on behalf of the board, I would like to thank all the staff, board members and the Society's advisors for their hard work in meeting the challenges the pandemic has created.

At the time of writing this report, the UK government has yet to scope out how and when it will lift the emergency restrictions it implemented on March 23 and until normality returns it is very difficult to assess what the long-term implications will be for the Society and for the UK in general.

So whilst it is difficult at the moment to see anything other than through the lens of the pandemic, I would like to highlight areas in which the Society did make progress in 2019, even if this progress may have been temporarily undone in recent weeks.

One of the key pieces of work we undertook during the year was to develop a new operating system that will transform our delivery processes. It is regretful that the onset of the pandemic coincided with the final phase of testing the new system and its eventual launch.

However, I can confirm that the new system will significantly improve member communication, the delivery of services and products and improve outcomes for Society's members and employees.

This development reinforces our commitment to providing a high service level to our members, especially in paying out most death claims within two to three days.

In ensuring that the Committee of Management manages members' interests diligently, I take great reassurance that the Society adheres to the new Association of Financial Mutuals' Corporate Governance Code. The Company Secretary has been central in advising the Committee of Management on the new code and I thank him for the significant work he has undertaken in revising the annual report.

I would also like to thank my Committee of Management colleagues for their contributions to ensuring that the full Committee and its Sub-Committees are discharging their duties effectively and in members' best interests.

You are represented by a Committee of Management with a diverse range of skills and business backgrounds, including experts in law, accountancy, IT and financial services. The Committee of Management's commitment to the future success of the Society is further reinforced by the hard work of agents and staff, who serve members with great care and conscientiousness every single day.

Tees Mutual is very much rooted in the community. The significant interaction between our staff and members means we are exceptionally well placed to engage with local people.

To assist this core principle of the Society, I am delighted that the Tees Mutual Community Fund that we launched in 2018 has been successful and has helped some fantastic local charities and sports clubs.

We have assisted a wide range of activities such as Teesside Stroke Club, Leo's Neonatal support group, Cleveland Schools Football Association and several charities that focus on helping disadvantaged young people. It is our intention to resume the community fund at the earliest opportunity.

We have also focused on ensuring that our staff are equipped with the right skills to assist our more vulnerable members. In January 2019 our agents and staff underwent training to ensure that Tees Mutual is a place where people living with dementia are understood and made to feel welcome.

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Chair's Report for the Year Ended 31 December 2019 (continued)

This training was further reinforced by our partner Butterwick Hospice, which trained staff and agents on how to deal with customers coping with bereavement.

As I write this report, in June 2020, it is difficult to be anything other than concerned about the health of our members, families and colleagues.

I hope that by the time of our AGM, both the Chief Executive and I will be able to provide further clarity on how the Society has managed the significant post-balance sheet events that are unfolding.

Finally, I would like to thank the Society's advisors for their help and guidance during the year.

Mark Brooks

Date: 29 June 2020

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Chief Executive's Report for the Year Ended 31 December 2019

There are two parts to my report, a review of the performance of the Society during 2019 and an outline of the Society's response to the coronavirus pandemic.

Overall, 2019 was a satisfactory year. Volumes of new business were down compared to the excellent outturn in 2018, which resulted in only a slight increase in premium income for the year.

Investment income was significantly up, and this was reinforced by an overall investment return for the year of 12.3%. The expense base of the Society remained broadly in line with 2018 and is significantly lower than it was ten years ago.

A significant amount of Executive directors' time and focus during 2019 and early 2020 was spent on developing the new operating system with our partner, Sapere Software Limited. This has been an exciting and challenging project to have been involved with.

The pre-release development system we had recently been testing revealed many of the benefits the new system will bring to members in terms of improved service levels and to employees by providing a seamless interaction between agents out in the field and back-office staff.

However, this project, along with other areas of the Society's business plan, was placed on hold as the threat of a global pandemic emerged.

The events of 2019 are now largely irrelevant in the context of the position the Society finds itself in June 2020.

There have been two significant challenges as a result of coronavirus – the Society's capital position has deteriorated from the year-end and its operational activities have been fundamentally altered due to the government's emergency restrictions.

The decline in equity markets, combined with a corresponding decrease in gilt yields, resulted in the Committee of Management's decision not to award a reversionary bonus for 2019 and to reduce the level of terminal bonuses.

The government's emergency restrictions meant that agents could not visit members at their homes to collect premiums. This resulted in a huge effort from agents and staff to temporarily switch customers onto alternative payment methods, such as standing order and debit card payment.

The financial impact of the virus will disproportionately impact the Society's members, so we have been actively reassuring them that Tees Mutual will act with great forbearance in managing any arrears that may arise as a result of unemployment or a delay in receiving benefits.

The Committee of Management and the Executive team are incredibly thankful for the hard work and determination of staff and agents during this crisis.

The spirit of cooperation and willingness to go beyond contractual duties reflected a genuine determination of everyone involved in the Society to protect the interests of members and ensure that they are being treated fairly during difficult circumstances.

I am also deeply indebted to the agents for their understanding and cooperation during the discussion around furloughing.

It is not possible to say with any certainty what the impact of the coronavirus will have on the economy as a whole and the Society in particular over the longer term, however, the Committee of Management has gained assurance that the Society will be able to meet its solvency obligations for the next twelve months by undertaking an additional mortality investigation, carried out by the Appropriate Actuary, based upon the coronavirus statistics currently available.

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Chief Executive's Report for the Year Ended 31 December 2019 (continued)

I want to also reassure members that in those areas in which the Committee of Management, Executive team and staff can influence events, we will work diligently to ensure that our actions provide the best possible outcome for Tees Mutual members.

Phil Carey

Date: 29 June 2020

The Kensington Friendly Collecting Society Limited
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Strategic Report of the Committee of Management
for the Year Ended 31 December 2019

The Committee of Management of The Kensington Friendly Collecting Society Limited presents its Strategic Report for the Society for the year ended 31 December 2019. During the previous financial year 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 recognises that customer behaviour is changing and is continuing to look for opportunities to develop new distribution channels.

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 issue by email (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's 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. With this in mind the Society continued with the development of a new Cloud based Customer Relationship Management system (CRM) during 2019. It is intended that this system will be implemented during 2020. The Committee of Management believes that this system will lead to a more efficient communication between the agents, members and office staff and over time is anticipating that cost savings will be made.

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 2019 has remained one of high unemployment, and with an increasing number of members being affected by the Government's welfare sanctions and the roll out of Universal Credit.

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Strategic Report of the Committee of Management
for the Year Ended 31 December 2019 (continued)

Results and Performance

2019 was once again a period that presented challenging conditions to the world's financial markets, due in the main to uncertainty surrounding pending political events. In the UK these concentrated upon the Brexit negotiations and overseas the US/China tariff stand-off. Despite this, the Society was able to achieve an overall investment return of 12.3% (2018: 1.4% negative return).

The Committee of Management is continually working with the Society's advisors to diversify the portfolio so that it is not overly reliant on any one asset class and to be able to achieve better returns for the Society's members within the agreed risk profile. The market conditions during the year have made this difficult and at the year-end the portfolio consisted of 81% fixed interest and 19% equities and equity based funds.

Despite the challenging business environment that saw a reduction in the volume of annualised new business from £109,937 in 2018 to £86,715, the Society is able to report an increase in weekly premium and overall premiums received.

The Committee of Management also continues to closely monitor the cost base of the Society and has again been able to maintain overheads within the agreed budget.

In view of the global pandemic that occurred after the year-end (see Principal Risks and Uncertainties below) the Society has suspended reversionary bonuses and is also continuing with the strategy to rebalance terminal bonuses so that they remain sustainable and fair to all members.

Based upon the results for the year the sum of £146,654 has been added to the Fund for Future Appropriations (2018: decrease of £359,910).

Following a review of the financial performance of the partnership with PG Mutual to white label their Income Protection Plus policy, the Committee of Management and PG Mutual have decided to cease this agreement with effect from the 31 December 2019.

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 team consider the environment in the purchasing of materials for the office and seek to recycle used supplies, where appropriate.

As a small mutual society the Committee of Management has begun discussions with the Society's investment managers as to whether and how we develop an engagement strategy under new policy guidelines issued by the Financial Conduct Authority (PS19/13 – Shareholders Rights Directive). The purpose of an engagement policy is to set out how a life company monitors strategy and performance, as well as the environment and social impact of the companies it holds shares in - either directly or indirectly. As a small mutual we are in the process of assessing the degree to which this applies to our business.

Future Developments

As set out in the Reports of the Chief Executive and Chair in previous years, 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's products. As part of this, 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. Also, 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.

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Strategic Report of the Committee of Management
for the Year Ended 31 December 2019 (continued)

These 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.

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.
- **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.

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Strategic Report of the Committee of Management
for the Year Ended 31 December 2019 (continued)

- **Coronavirus:** The coronavirus (Covid-19) has been identified as a risk and the primary focus of the Committee of Management is to ensure the safety of its members and employees and is monitoring the impact that the pandemic is having on the business, membership and employees. In accordance with the government “stay at home” message the Society temporarily suspended the home collection service, although a significant proportion of the policy-holders had been successfully transferred to electronic payment methods prior to this taking effect. In addition the Society was able to successfully transfer a significant proportion of the back-office function to remote working which has enabled a high level of service to be maintained. As the seriousness of the pandemic increased and in response to the falling equity market in order to protect solvency and liquidity the Society, working closely with its professional advisers, has taken a prudent course of action and has sold its equity holdings and has suspended reversionary bonuses. The effect of the economic recession that may result is uncertain and this may impact upon the ability of members to afford their premiums and result in an increased level of claims in the short term. The Committee of Management, with the assistance of the Appropriate Actuary, has reviewed the potential effect of an increased level of claims and does not believe that the impact will cast any significant doubt upon the ability of the Society to meet its regulatory capital requirements or to continue as a going concern. The Committee of Management will continue to monitor the impact of the coronavirus on the business as the pandemic continues.

By order of the Board

Brian Douglass
Company Secretary

Date: 29 June 2020

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Committee of Management Biographies
for the Year Ended 31 December 2019

Mark Brooks BSC (Hons) - Society Chair

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 and 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

Jamie was elected to the Committee of Management in June 2011, he currently serves on the Audit and Risk Committee, the Nomination Committee and the Remuneration and Assessment Committee. Until 2019 Jamie was Chair of the Audit and Risk Committee and Vice Chair of the Society.

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 and 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 National Chair of the Consumer Credit Association.

Christine Scott - Senior Independent Director

Christine was elected on to the Committee of Management in June 2011, is Chair of the Remuneration and Assessment Committee and serves on the Finance and Investment Committee and the Nomination Committee, having previously also served on the Audit and 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 serves on the Finance & Investment Committee, the Remuneration and Assessment Committee and the Product Oversight and Governance 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

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Committee of Management Biographies
for the Year Ended 31 December 2019 (continued)

Gary Ferguson continued

his own business and since then has been based in the offices of a firm of local accountants as a general IFA dealing with pensions, investments, life assurance and mortgages.

Brian Douglass BA(Hons) FCCA - Company Secretary

Brian joined the Society as Company Secretary in May 2012 and was elected on to the Committee of Management in June 2012. He is currently the Compliance Officer of the Society and serves on the Audit and 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 – Society Vice-Chair

Debra joined the Committee of Management in 2014 She serves on the Audit and Risk Committee, the Remuneration and Assessment Committee and Chairs the Product Oversight and Governance 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 several 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 serves on the Remuneration and Assessment Committee and chairs the Audit and Risk Committee.

Andrew Douthwaite BSc

Andrew joined the Committee of Management in November 2016 and serves on the Audit and Risk Committee and the Finance and 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 and Risk Committee and the Remuneration and Assessment Committee.

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Corporate Governance Report
for the Year Ended 31 December 2019

The Committee of Management of Tees Mutual is committed to achieving high standards of integrity and ethical values. As an essential part of this commitment the Committee of Management supports high standards of Corporate Governance.

As a member of the Association of Financial Mutuals (AFM) the Society is evaluating its corporate governance activities against the six principles set out in the AFM Corporate Governance Code (2019).

Throughout the year ended 31 December 2019, to the best of the Committee of Management's knowledge, the Society has complied with the AFM Corporate Governance Code (2019). The Society has applied all the principles set out in the Code; the paragraphs below explain how these principles have been applied by the Society during the year to 31 December 2019.

Principle One – Purpose and Leadership

Purpose

The Society was initially founded in 1904 to provide a means for local working class families to save small sums each week to provide enough money to enable them to pay for a funeral when a family member died. The Committee of Management continues to follow in the historical traditions of the Society and the purpose of the Society remains the provision of life assurance and savings products to the members who are often unable to source mainstream financial services products either because of design, premium or clause exclusions or because they have non-average requirements.

The Society has historically delivered services face to face with a home collection service and the Committee of Management believes that there continues to be a demand for this service. They also recognise that customer behaviour is changing and are continuing to work on broadening awareness of the Society and making additional distribution and payment channels available.

Values and Culture

The main operating areas of the Society (Teesside and North Yorkshire) have continued to suffer through high unemployment and welfare sanctions throughout the year under review. The business model is therefore required to be inherently forbearant and flexible. Throughout the long-term nature of the life and saving products some members will inevitably have financial setbacks and the Society's staff will work with members by offering repayment plans, flexible premiums or surrender values after two years. These factors differentiate the Society from many of the mainstream insurers that advertise on TV.

The Committee of Management is aware of its responsibilities to set the tone and the expected behaviours of the Society's employees and endeavours to communicate these values to the workforce. This is carried out through a series of regular management and staff meetings. As the Society's business is located in one main area and it operates out of one office it is conducive to good communication between the management team and the employees. Senior management and the employees can communicate face to face on a regular basis.

The Society's sales team hold monthly meetings with their supervisors to discuss operational issues and feedback from members. The supervisors also meet regularly with the Chief Executive and Company Secretary to discuss the issues arising from these meetings.

During the year the employees of the Society also received Continuing Professional Development (CPD) training including sessions on bereavement and dementia awareness. The Society is currently working to achieve dementia friendly accreditation.

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Corporate Governance Report
for the Year Ended 31 December 2019 (continued)

As a mutual organisation it is essential that our members' interests are at the forefront of what the Society does and the Committee of Management always endeavours to ensure that our products meet our members' needs and that they are confident that members will receive an appropriate, respectful and helpful response when they engage with members of the team.

The Society monitors performance in this area through the use of a treating customers fairly matrix. This is reviewed at least every three years, the last time being in 2018.

The Committee of Management monitors the performance of the Society through annual appraisals and through the receipt of quarterly reports from the internal audit and compliance functions.

Strategy

The strategy, objectives and key performance indicators are set out in the Strategic report commencing on page 7.

Principle Two – Board Composition

The Committee of Management has the overall responsibility for creating a framework for the Society and is collectively responsible to the members for the direction, promotion and oversight of the Society to ensure its long-term success.

In order to review the performance, the Committee of Management has delegated some of these responsibilities for the operation of the systems to the Executive directors and various sub-committees that report to each Committee of Management meeting.

The Committee of Management meets at least four times a year and works to a schedule of matters set out in the terms of reference of the committee (copy available on the Society's website). All meetings are formally minuted.

The main areas of responsibility of the Committee of Management are as follows:

- Approving and monitoring the Society's long-term performance.
- Monitoring the governance of the Society including the composition and competency of the Committee.
- Stewardship of members' funds including investment strategies.
- Approval of the annual financial statements.
- Engagement with the members, including treating customers fairly.
- Remuneration including following the recommendation of the Remuneration and Nomination Committees in determining salaries.
- Business development and strategy.
- Delegation of authority to various sub-committees and determining the terms of reference for these committees.

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. The job description for the roles of the Society's Chair, Chief Executive and Company Secretary are available on the Society's website.

The current Chair of the Society is Mark Brooks. Mark was appointed as Chair in September 2017 and was considered to be independent upon his appointment. He has indicated that he is able to devote sufficient time to his role as Chair and does not hold any other non-executive roles.

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Corporate Governance Report
for the Year Ended 31 December 2019 (continued)

The roles of the Chair and the Chief Executive are carried out by separate people to ensure that a balance of responsibilities, accountability and decision making are effectively maintained.

The Chair in conjunction with the Company Secretary set the agenda for each Committee of Management meeting and the Chair plays a pivotal role in encouraging open and constructive debate.

The directors all have equal voting rights, except the Chair who has the casting vote if the need arises.

The Senior Independent Director and the other Non-Executive directors carry out a formal appraisal of the Chair on an annual basis.

Balance and Diversity

The Committee of Management comprises the Chair, Vice-Chair, Senior Independent Director, Chief Executive, Company Secretary and five other Non-Executive directors. It consists of seven men and three women. All the Non-Executive directors are currently considered to be independent. There were no changes in the composition of the committee throughout 2019.

The committee currently has the benefit of a diverse range of business specialisms, including accountancy, legal, information technology, financial services, banking and general management experience.

All the directors have access to the services of the Company Secretary and are given access to independent professional advice at the Society's expense when members deem it necessary for them to carry out their responsibilities.

All directors are currently subject to election at the first AGM following their appointment and annually thereafter.

The other business commitments of each director are disclosed on appointment and the Committee of Management is satisfied that these do not conflict with their duties as directors of the Society.

The Society operates an equal opportunities policy, it does not discriminate unlawfully when deciding which candidate is considered for a vacancy or in any terms of employment. The Society ensures 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.

Size and Structure

The size of the Committee of Management is considered to be appropriate, having regard to the experience and skills that individual members bring to their duties. The Society acknowledges that it could operate with a slightly smaller committee although the additional size allows for a certain degree of flexibility in respect of members serving on sub-committees.

The role of the Non-Executive directors is to challenge the Executive directors and to do this effectively they need to be independent in both character and judgement. All the Non-Executive directors that served throughout the period under review have served for nine years or less and are independent in both aspects.

The Society does not automatically terminate appointments after nine years because to lose the experience built up over this period would not be beneficial to the Society. In considering the re-appointment of a non-executive director in excess of this timescale the Committee of Management will consider their relevant skills in relation to the Society's requirements and whether there is any evidence that the time served would adversely affect their integrity or independence.

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Corporate Governance Report
for the Year Ended 31 December 2019 (continued)

Effectiveness

Committee members complete an annual self-assessment and are appraised on an annual basis by the Society's Chair to ensure that they retain their independence and remain fit and proper to carry out their role. In addition the overall effectiveness of the committees is evaluated on an annual basis by the Internal Audit function. The Society has not had an externally facilitated Board evaluation as it considers that the costs outweigh the benefits.

The Committee of Management meets at least four times per year and has delegated some of its responsibilities to sub-committees that report to each full Committee of Management meeting. Each of the sub-committees has a separate Chair.

New Committee of Management members undergo an induction programme when they join the Society and all Committee of Management members participate in CPD training each year.

The Non-Executive directors also meet at least once a year without the Executive directors or the Chair present to facilitate openness and the free exchange of views.

All Committee of Management members have access to the Society's Secretary who is responsible for advising the committee through the Chair on all governance matters.

The business experiences of the Committee of Management members, both individually and collectively, ensure that they can challenge constructively and help to develop proposals on strategy. As a body 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.

The Senior Independent Director, Christine Scott, takes the lead role in the performance evaluation of the Chair and collates the Committee of Management members' opinions in order to express concerns or table agenda items other than through the Chair or Chief Executive.

Principle Three – Director Responsibilities

Accountability

The Corporate Governance practices of the Society are set out in the Memorandum and Articles of Association, the rules of the Society and the terms of reference of the committees.

The Society also operates a conflicts of interest policy that governs the internal affairs of the Society. Committee of Management members are required to declare any conflicts on appointment and potential conflicts are minuted and managed where appropriate at Committee meetings.

During the year the Society has been implementing the FCA/PRA Senior Manager and Certification Regime which clearly sets out the respective responsibilities of the Society's staff and senior management team. This regime is designed to encourage staff to take personal responsibility for their actions and to improve overall conduct in financial services.

The directors have a duty to promote the success of the Society for the benefit of the members as a whole, as required by the Friendly Societies Act 1992.

The Kensington Friendly Collecting Society Limited
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Corporate Governance Report
for the Year Ended 31 December 2019 (continued)

Committees

The Committee of Management have delegated responsibilities to the sub-committees set out below:

- Remuneration and Assessment Committee (meet at least annually)
- Audit and Risk Committee (at least three meetings per year)
- Finance and Investment Committee (at least three meetings per year)
- Product Oversight and Governance Committee (at least annually)
- Nomination Committee (at least annually)

Each sub-committee has its own terms of reference and reports to the Committee of Management at each meeting. Each committee operates to an agenda agreed in advance and each meeting is formally minuted. The responsibility for each decision remains with the Committee of Management. In the opinion of the Committee of Management the composition of the Audit and Risk Committee meets the expectations of the PRA as regards independence.

Details of the work undertaken during the year by each committee is set out later in this report commencing on page 20.

During the year the Society commenced a programme of reviewing the terms of reference of all the committees, a process that is expected to be completed during 2020. The terms of reference of all the committees and the job descriptions of the officers of the Society are available on the Society's website.

The table below shows board member attendance at all Committees during the year.

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

Integrity of information

Regular and timely information is distributed to committee members on all aspects of the business and committee papers are distributed seven days in advance of committee meetings. The integrity of this information is reviewed on an on-going basis by the Society's compliance and internal audit functions. Financial information is audited annually by independent external auditors.

The Kensington Friendly Collecting Society Limited
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Corporate Governance Report
for the Year Ended 31 December 2019 (continued)

Principle Four – Opportunity and Risk

Opportunity and Risks

The Strategic Report at page 7 details the opportunities and the major risks that the Committee of Management is currently considering together with the actions that the Committee of Management is taking to mitigate these risks.

Operational risks are considered at each Audit and Risk Committee meeting using a rolling schedule. All risks considered major are reviewed at each meeting. New emerging risks are added to the risk register once the likelihood and impact becomes material. The risk register is reviewed by the Committee of Management annually.

The systems and controls operated are designed to manage risks rather than eliminate them entirely and can only provide reasonable rather than absolute assurance against a risk materialising.

Responsibilities

The Society has an established organisational structure with clearly stated lines of responsibility and reporting, with authorisation procedures in respect of matters such as purchase commitments, capital expenditure and investment limits. This helps to protect the integrity and long-term sustainability of the business, to meet strategic objectives and create value for its stakeholders.

The Committee of Management is responsible for identifying the risks to the Society and for putting in place controls and procedures to mitigate these risks. This is done through the policies and procedures set out in the paragraphs above.

Principle Five – Remuneration

The Remuneration and Assessment Committee has the primary responsibility to set remuneration levels that will enhance the Society's resources by securing and maintaining quality senior staff who can deliver the strategic aims of the Society.

This committee has clearly defined terms of reference and makes recommendations to the Committee of Management concerning remuneration strategy, recruitment and incentive plans. The remuneration of the Executive directors does not have formal performance related elements and the Remuneration Committee does not formally assess remuneration relative to other organisations. The committee prefers to set remuneration by reference to the overall performance of the Society and the individuals, together with the general economic conditions relevant to the Society and the area it operates in. The Committee of Management believes that this method is appropriate to the size and complexity of the Society.

The remuneration of the Committee of Management is set out in the Remuneration Report starting on page 26.

Principle Six – Stakeholder Relationships and Engagement

Members

The home collection service and the member relations policy that the Society operates allows the Society to maintain close links with the membership and any issues arising can be appropriately and quickly addressed.

The Senior Independent Director has accompanied the Society's agents and visited members at their homes.

The Kensington Friendly Collecting Society Limited
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Corporate Governance Report
for the Year Ended 31 December 2019 (continued)

Members continued

Notice of the AGM is provided at least 20 working days in advance of the meeting. Members of the Committee of Management will be in attendance at the AGM to answer members' queries. The Committee of Management is currently investigating ways in which it can increase the attendance at the AGM.

The Society has a documented complaints handling procedure and aims to treat customers fairly. Although the Society receives relatively few complaints, those received are taken seriously and wherever possible lessons learned to reduce the chances of the same complaint recurring.

Employees

The employees of the Society are particularly important as they are generally the first point of contact with the Society's members and prospective members. In support of the employees we try to maintain a degree of flexibility in their working arrangements so that they can balance social and family commitments with work.

The Committee of Management aims to ensure that employees are appropriately equipped and competent to carry out their roles as efficiently as possible and in order to do this provides regular training in both technical and soft skills areas.

Regular meetings are held with employees to understand operational and member related issues that they are experiencing in order that these matters can be addressed.

The Society is currently developing a new electronic Customer Relationship Management (CRM) system that the Committee of Management members are confident will improve efficiency and the members' experience.

The employees also have access to a formal whistleblowing and grievance procedure that is overseen by the Senior Independent Director.

The employees of the Society play a key role in the development of the Society and wherever possible the Senior Management Team will consult with the employees whilst developing strategic plans.

Suppliers

The Committee of Management aims to ensure that there is appropriate two way dialogue with suppliers and that contractual terms such as payment terms are adhered to. Suppliers are also regularly reviewed to ensure that the product/service that they supply continues to be fit for purpose and represents value for money. Wherever possible the Society will aim to use local suppliers providing the above criteria are satisfied.

Community and the Environment

As part of the Society's member engagement policy and to increase the awareness of the Society within the local communities, the Society has set up a small community fund that aims to assist members with financial assistance for charitable projects. During the year we were able to make a number of small charitable donations in our local operating areas.

Operating from a small office the Society does not have a major impact on the environment but it does take its responsibilities seriously and the executive team considers the environmental impact when acquiring supplies and ways to recycle used supplies, where appropriate.

The Kensington Friendly Collecting Society Limited
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Corporate Governance Report
for the Year Ended 31 December 2019 (continued)

Committee Reports

Committee of Management

During 2019 the Committee of Management:

- Approved the Annual Reports and Accounts for 2018.
- Approved the budget for 2020 and the business plan.
- Received regular reports on the financial performance of the Society and performance against budget.
- Received and considered reports from the Chairs of the Audit and Risk Committee, Finance and Investment Committee, Remuneration and Assessment Committee and the Product Oversight and Governance Committee.
- Received updates from the Chief Executive and Company Secretary on the Society's marketing activities and performance against strategic objectives.
- Regularly reviewed key risks and assessed the mitigation of these.

Audit and Risk Committee

The role of the Audit and Risk Committee is to oversee the Society's corporate governance, risk register and audit matters and to assist the Committee of Management in determining whether the Society's systems and controls are appropriate to effectively manage and mitigate strategic and operational risks.

During 2019 the Audit and Risk Committee met three times and comprised the following Members:

Jamie Brown – Chair – to October 2019, two meetings
Brian Douglass
Debra Barker
Gillian Dobson – Chair from October 2019, one meeting
Andrew Douthwaite
Dominic Gardner

The Committee of Management has considered the expectations of the PRA regarding the independence and competence of Audit Committees and is satisfied that these conditions are being met by the Society. The Committee of Management Chair is not a member of this committee. The academic, business and financial experience of the members 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 both the internal auditor and external auditor at any time. The internal auditor attended all three meetings during 2019.

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 2019 (continued)

Activities in 2019

The Audit and 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 and the performance of the auditors to enable it to make a recommendation to the Committee of Management regarding the appointment/ re-appointment of external auditors.
- 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 and expanding the Society's risk register and considering and improving the mitigating policies in place to manage downwards these risks to the Society.
- Reviewing the Society's system of internal control and its effectiveness and reporting to the Committee of Management on the results of that review and where appropriate recommending changes to make the system more efficient.

Remuneration Committee

The committee comprises of all Non-Executive members. It is chaired by the Senior Independent Director. It meets at least annually and met once during the year. Its principal function is to review the performance of the Executive directors and to set their salaries for the forthcoming year.

During the year the committee commenced a review of the contractual notice periods of the Executive directors in order to strengthen the managerial resilience of the Society.

Nomination Committee

This comprises the following: -

Mark Brooks - Chair
Christine Scott
Philip Carey
Jamie Brown

It met on one occasion during 2019. No new Committee of Management members were appointed during 2019 although this committee considered the future requirements for new Committee of Management members and considered the skills and experience that would be desirable. In appointing new committee members the Society does not use an external search consultancy, 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's 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 2019 (continued)

Finance and Investment Committee

This comprises the following: -

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

The committee met on two occasions during 2019.

During 2019 the committee performed the following tasks:

- Reviewed the Society's investment strategy and financial performance.
- Reviewed the effectiveness of the marketing strategy including the development of a social media campaign.
- Reviewed the development of a new Customer Relationship Management (CRM) system for the Society that was approved in 2018.

The main role of the committee is to review the financial performance against budget and to monitor investment performance of the Society's brokers within the agreed risk profile. In addition to this, during 2018 the role of the committee was widened to include consideration of business development and marketing activities.

Product Oversight and 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 in 2018 to consider the Society's Treating Customers Fairly responsibilities and to review existing and new products from a risk perspective.

The second annual meeting of this committee was held during the year and was also attended by the Chief Executive, Company Secretary and Internal Auditor. The committee may also request the attendance of members of the Society's staff.

On behalf of the Committee of Management

Brian Douglass
Company Secretary

Date: 29 June 2020

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Report of the Committee of Management
for the Year Ended 31 December 2019

The Committee of Management presents its annual report and audited financial statements for the Society for the year ended 31 December 2019. This report should be read in conjunction with the Strategic Report set out on pages 7 to 10.

Members of the Committee of Management

The Members of the Committee of Management are shown on page 1, and brief biographies on pages 11 and 12. All Members of the Committee of Management will be standing for 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 pages 3 and 4 and in the Strategic Report on pages 7 to 10.

The overall financial position of the Society as at 31 December 2019 is considered satisfactory bearing in mind the local economic climate, the volatility in the world financial markets and the restrictions imposed by the coronavirus outbreak (See Going Concern Basis below).

Statement of Solvency

Sally Butters 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 2019, 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 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 and has also considered the coronavirus pandemic that has developed since the year end. The Society's management has responded to this threat by taking measures designed to protect the assets of the Society. The Committee of Management, with the assistance of the Appropriate Actuary, has reviewed the potential effect of an increased level of claims over the next fifteen months and does not believe that the impact will cast any significant doubt upon the ability of the Society to meet its regulatory capital requirements or to continue as a going concern for a period of at least twelve months from the date of approval of these financial statements.

The Committee of Management therefore believes that it remains appropriate to continue to prepare these financial statements on a going concern basis.

The Kensington Friendly Collecting Society Limited
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Report of the Committee of Management
for the Year Ended 31 December 2019 (continued)

Charitable and Political donations

The Society made local charitable donations totalling £3,356 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.

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 Kensington Friendly Collecting Society Limited
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Report of the Committee of Management
for the Year Ended 31 December 2019 (continued)

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 tenth audit and the Committee of Management has carried out a review of their performance and continued professional independence 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: 29 June 2020

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Remuneration Report
for the Year Ended 31 December 2019

This report is submitted in respect of the year ended 31 December 2019. A vote to approve the report will be put to the 2020 Annual General Meeting.

Remuneration and 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. In addition to his role as Chief Executive, Philip Carey is 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 2019 Mr Carey also served as chairman of the Consumer Credit Association (CCA). This appointment was approved by the Committee of Management at commencement and Mr Carey retains 100% of the fees payable by the CCA.

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 for them to carry out their responsibilities.

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Remuneration Report
for the Year Ended 31 December 2019 (continued)

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.

Fees, salaries and benefits of the Committee of Management in 2019 amounted to:

	Fees £	Salary £	Benefits £	Pension £	Total £	2018 £
Mark Brooks	2,250	-	-	-	2,250	2,089
Peter McTiernan (retired July 2018)	-	-	-	-	-	695
Philip Carey	-	25,602	-	6,551	32,153	32,628
Jamie Brown	1,634	-	-	-	1,634	1,526
Christine Scott	1,608	-	-	-	1,608	2,012
Gary Ferguson	1,204	-	-	-	1,204	1,285
Brian Douglass	-	32,017	-	934	32,951	31,740
Debra Barker	2,381	-	-	-	2,381	2,408
Gillian Dobson	1,285	-	-	-	1,285	1,365
Andrew Douthwaite	1,527	-	-	-	1,527	1,446
Dominic Gardner (appointed November 2018)	1,504	-	-	-	1,504	134
	<hr/> 13,393	<hr/> 57,619	<hr/> -	<hr/> 7,485	<hr/> 78,497	<hr/> 77,328

Christine Scott
Chair of the Remuneration Committee

Date: 29 June 2020

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 2019 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 2019 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.

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

Key audit matters continued

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;
- the Society remains in a solvent position; and
- The potential impact of the Coronavirus (Covid-19) on the mortality of members and on the Society's solvency for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 £41,000 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 £36,900.

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 £13,000 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.

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)

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;
- the work of the Independent Actuary also allows us to consider the appropriateness of the Statement of Solvency on page 23; and
- as a result of the Coronavirus (Covid-19) pandemic, the society carried out a mortality stress test to assess the effect that the pandemic could have on the Society's technical provision and free assets. The test projected that the Society will continue to remain in a solvent position and will have capital in excess of regulatory capital requirements for a period of at least 12 months from the date when the financial statements are authorised for issue. The Independent Actuary has reviewed the underlying calculations of the mortality stress test and confirmed their reasonableness.

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.

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.

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)

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;
- a satisfactory system of control has not been maintained;
- 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.

Responsibilities of the Committee of Management

As explained more fully in the Committee of Management's responsibilities statement set out on pages 24 and 25, 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. This description forms part of our auditor's report.

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 10 years.

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

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)

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: 3 July 2020

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Income and Expenditure Account
for the Year Ended 31 December 2019

Technical Account - long term business

	Note	2019 £	2018 £
Earned premiums	5	844,669	837,154
Investment income	6	409,936	278,432
Other income		15,449	12,976
Unrealised gains/(losses) on investments	6	496,119	(384,010)
		<u>1,766,173</u>	<u>744,552</u>
Claims incurred	7	694,194	896,967
Changes in other technical provisions	14	627,953	(107,526)
Net operating expenses			
Acquisition expenses	8	90,541	107,197
Administrative costs	8	137,403	137,319
Investment expenses and charges	8	69,428	70,505
Transfer to/(from) the fund for future appropriations	14	146,654	(359,910)
		<u>1,766,173</u>	<u>744,552</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 notes on pages 35 to 54 form an integral part of these accounts.

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Balance Sheet as at 31 December 2019

	Note	2019 £	2018 £
Assets			
Investments			
	11		
Land and buildings		175,000	175,000
Investment in subsidiary		1	1
Other financial investments		7,807,182	7,065,741
Debtors			
Debtors arising on direct insurance operations		12,235	21,075
Taxation recoverable		825	443
Amount owed by subsidiary undertaking		-	1,968
Other assets			
Tangible assets	12	14,740	18,316
Intangible assets	13	30,600	13,500
Cash at bank and in hand		68,274	57,908
Prepayments and accrued income			
Accrued income		30,689	34,033
Prepayments		9,835	9,453
		<u>8,149,381</u>	<u>7,397,438</u>
Liabilities			
Fund for future appropriations			
	14	1,132,903	986,249
Technical provisions			
Long term business provision	14	6,915,600	6,287,647
Creditors			
Taxation and social security		3,218	3,601
Other creditors		97,660	119,941
		<u>8,149,381</u>	<u>7,397,438</u>

The financial statements were approved and authorised for issue by the Committee of Management on 29 June 2020 and were signed on their behalf by: -

Philip Carey

Brian Douglass

The notes on pages 35 to 54 form an integral part of these accounts

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Notes to the Financial Statements for the Year Ended 31 December 2019

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 7.

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.

Going concern

As a result of the outbreak of Coronavirus (Covid-19) there is some uncertainty as to how this will affect the Society's financial position due to the unknown severity and length of the pandemic. However, the Committee of Management has reviewed the Society's financial position and as a result of this review has a reasonable and proper expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Committee of Management therefore believes that the going concern basis remains the appropriate basis to prepare these financial statements. The on-going situation will continue to be monitored.

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.

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

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.

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 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.

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

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
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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.

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.

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

Critical accounting estimates and judgements continued

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 April 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 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.

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

Policies and objectives continued

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:

	2019		2018	
	£	£	£	£
Fund for future appropriations	1,132,903		986,249	
Less: Inadmissible assets	(5,250)		(5,250)	
Resilience reserve	(162,384)		(69,800)	
Expense reserve	(40,000)		(40,000)	
		<u>925,269</u>		<u>871,199</u>
Capital available to meet regulatory capital requirements		<u>925,269</u>		<u>871,199</u>
Regulatory capital requirements		<u>312,431</u>		<u>285,393</u>
Capital in excess of regulatory capital requirements		<u>612,838</u>		<u>585,806</u>

The movement in capital resources is as follows:

	2019	2018
	£000s	£000s
Capital available as at 1 January	871	1,231
Change in assumptions in the valuation basis	(650)	-
Economic factors – investments	817	(230)
Economic factors – expenses	(16)	(6)
(Cost)/surplus on new business	(144)	(147)
Surplus on exits	140	93
Cost of reversionary bonus above margins set aside for bonus	-	(70)
Change in contingency reserves	(93)	-
Capital available as at 31 December	<u>925</u>	<u>871</u>

The assets available for the Required Minimum Margin are 297% of the RMM (305% last year).

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Notes to the Financial Statements for the Year Ended 31 December 2019 (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 Prudential Regulation Authority (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 influence 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:

	2019	2018
	£	£
Whole of life	3,710,509	3,368,306
Endowment	1,375,229	1,282,002
Quinquennial	1,829,862	1,637,339
Total	6,915,600	6,287,647

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

	Change in liabilities (£000s)
Decrease in valuation interest by 0.5%	865
Increase in expenses allowance by 5%	216
Increase in mortality rates by 15%	216

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

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:

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

Insurance risk continued

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.

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:

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

i) Maximum exposure to credit risk continued

	2019	2018
	£	£
Assets		
Bonds	6,311,361	5,892,968
Equities	1,495,821	1,203,161
Property	169,750	169,750
Deposits	68,274	57,908
	<hr/>	<hr/>
Total	8,045,206	7,323,787
	<hr/>	<hr/>

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.

	2019
	£
UK Government Bonds	6,205,916
Corporate Bonds	105,445
	<hr/>
Total	6,311,361
	<hr/>

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	596,366	-	76,176
Collectives	284,584	47,124	491,571
	<hr/>	<hr/>	<hr/>
Total	880,950	47,124	567,747
	<hr/>	<hr/>	<hr/>

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

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 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:

US Dollar	Market value (£)
Direct holdings	76,176
Collectives	56,537
Total	132,713

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

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

	Change in surplus assets (£K)
Fixed interest yields fall by 1%	(610)
Equity values fall by 10%	(150)
Fixed interest yields rise by 1%	219
Equity values rise by 10%	150

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.

The Kensington Friendly Collecting Society Limited
Trading as Tees Mutual

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

6	Investment income	2019	2018
		£	£
	Income from land and buildings	5,178	4,964
	Income from listed investments	182,381	197,644
	Gains on investments realised	222,362	75,810
	Bank interest	15	14
		<u>409,936</u>	<u>278,432</u>
		2019	2018
		£	£
value	Unrealised gains /(losses) – financial investments at fair	496,119	(359,010)
	Unrealised losses – land and buildings at fair value	<u>-</u>	<u>(25,000)</u>
		<u>496,119</u>	<u>(384,010)</u>
7	Claims incurred	2019	2018
		£	£
	Deaths	294,962	342,990
	Maturities	113,399	227,900
	Surrenders	148,672	165,793
	Bonuses	61,464	84,505
		<u>618,497</u>	<u>821,188</u>
	Claims processing expenses	75,697	75,779
		<u>694,194</u>	<u>896,967</u>
8	Expenses	2019	2018
		£	£
	Acquisition expenses	90,541	107,197
	Administration	137,403	137,319
	Investment expenses and charges	69,428	70,505
	Claims processing expenses	75,697	75,779
		<u>373,069</u>	<u>390,800</u>

The Kensington Friendly Collecting Society Limited
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Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

Expenses continued

	2019	2018
	£	£
Committee and staff remuneration (see below)	232,063	235,595
Audit	20,864	19,956
Actuary	35,650	42,407
Stockbroker	22,410	22,696
Depreciation	6,968	5,617
Other overheads	51,353	60,984
Registration fees and subscriptions	3,761	3,545
	<u>373,069</u>	<u>390,800</u>

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

	2019	2018
Committee	11	11
Administration	4	4
Sales	16	16
	<u>31</u>	<u>31</u>

The aggregate payroll costs of these persons were as follows:

	2019	2018
	£	£
Committee Members	71,011	71,183
Staff wages	145,475	150,976
Social security costs	6,935	6,593
Pension contributions	8,642	6,843
	<u>232,063</u>	<u>235,595</u>

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

	2019	2018
£1 - £5,000	8	9
£25,001 - £30,000	1	1
£30,001 - £35,000	1	1
	<u>10</u>	<u>11</u>

The Chair received £2,250 (2018: £2,089) and the highest paid member of the committee received £32,017 (2018: £31,162).

The Kensington Friendly Collecting Society Limited
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Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

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

	2019	2018
Money purchase schemes	2	2

9 Audit fees

	2019	2018
	£	£
Audit	20,000	19,200
Other	744	516
Under provision previous year	120	240
	<u>20,864</u>	<u>19,956</u>

10 Actuaries fees

Sally Butters of OAC plc performs the function of Appropriate Actuary.

The Society has requested her to furnish it with particulars required under Section 77 of the Friendly Societies Act 1992. Ms Butters has confirmed that neither she or her family, nor any of her 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:-

	2019	2018
	£	£
Valuation work	35,280	35,280
Special work	370	7,127
	<u>35,650</u>	<u>42,407</u>

11 Investments

Land and buildings

	2019
	£
At 1 January 2019	<u>175,000</u>
At 31 December 2019	<u>175,000</u>

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 2019 was £336,610 (2018 - £336,610).

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

The Kensington Friendly Collecting Society Limited
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Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

Investment in subsidiary		2019
		£
Cost		
At 1 January 2019	1	
	<hr/>	
At 31 December 2019	1	
	<hr/>	
Net Book Value at 31 December 2019	1	
	<hr/> <hr/>	

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

	2019	2018
	£	£
Aggregate capital and reserves	(3,810)	(1,968)
Loss of the period	(1,842)	(1,969)
	<hr/> <hr/>	<hr/> <hr/>

The subsidiary company was incorporated on 2 October 2017 and commenced to trade on 5 February 2018. The company ceased to trade on 31 December 2019. Full provision has been made in these accounts against the amounts due from the subsidiary company on the grounds that this was not considered to be recoverable.

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.

The Kensington Friendly Collecting Society Limited
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Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

Other financial investments

	2019		2018	
	Market Value	Cost	Market Value	Cost
	£	£	£	£
British Funds	6,205,917	5,893,704	5,768,113	5,744,416
Fixed Interest	105,445	102,343	94,467	102,343
Basic materials and basic resources	14,409	11,090	14,919	14,010
Oil and Gas Producers	80,054	84,837	97,453	98,444
Industrials	29,860	25,173	37,220	54,244
Food and beverages	20,162	17,800	10,901	10,037
Household Goods	96,049	104,829	79,116	99,844
Healthcare	49,513	41,168	29,888	27,867
Travel & Leisure	-	-	28,318	26,831
Retail	14,294	14,034	-	-
Telecommunications	14,681	15,114	-	-
Utilities	20,900	21,113	-	-
Banks	13,319	17,672	57,830	71,482
Insurance	101,901	103,768	90,432	113,395
Financial services	37,566	38,108	3,705	7,123
Travel & Leisure (USA)	-	-	12,178	13,526
Diversified Collective Investments	339,800	300,814	278,375	297,989
North America	280,634	234,590	204,440	179,777
Europe	47,124	36,000	20,897	19,000
Japan	20,475	20,970	8,624	9,970
Asia Pacific	76,575	70,395	46,157	42,395
Other overseas	164,145	135,429	144,958	140,180
Property – United Kingdom	74,359	67,363	37,750	38,120
	7,807,182	7,356,314	7,065,741	7,110,993

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

12 Tangible assets

	Fixtures and fittings £	Total £
Cost		
At 1 January 2019	77,171	77,171
Additions	3,392	3,392
At 31 December 2019	80,563	80,563
Depreciation		
At 1 January 2019	58,855	58,855
Charge for the year	6,968	6,968
At 31 December 2019	65,823	65,823
Net Book Value at 31 December 2019	14,740	14,740
Net Book Value at 31 December 2018	18,316	18,316

The Kensington Friendly Collecting Society Limited
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Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

13 Intangible assets

	CRM System	Total
	£	£
Cost		
At 1 January 2019	13,500	13,500
Additions	17,100	17,100
	<hr/>	<hr/>
At 31 December 2019	30,600	30,600
	<hr/> <hr/>	<hr/> <hr/>
Net Book Value at 31 December 2019	30,600	30,600
	<hr/> <hr/>	<hr/> <hr/>
Net Book Value at 31 December 2018	13,500	13,500
	<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

	Long term business provision	Fund for future appropriations
	£	£
At 1 January 2019	6,287,647	986,249
Transfer from the technical account	627,953	146,654
	<hr/>	<hr/>
At 31 December 2019	6,915,600	1,132,903
	<hr/> <hr/>	<hr/> <hr/>

15 Long-term business provision

a) Analysis of insurance contract liabilities

	2019	2018
	£	£
Participating insurance contract liabilities	6,572,983	5,965,267
Non-participating insurance contract liabilities	342,617	322,380
	<hr/>	<hr/>
Total insurance contract liabilities	6,915,600	6,287,647
	<hr/> <hr/>	<hr/> <hr/>

b) Movement in long-term insurance contract liabilities

	2019	2018
	£	£
Balance at 1 January	6,287,647	6,395,173
Valuation interest rate change	634,811	-
Policy movements	(6,858)	(177,151)
Cost of bonus	-	69,625
	<hr/>	<hr/>
Balance at 31 December	6,915,600	6,287,647
	<hr/> <hr/>	<hr/> <hr/>

The Kensington Friendly Collecting Society Limited
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Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

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.

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:

		Interest rate
With profit premium paying	0.50%	(2018 : 0.95%)
Non-profit paid up	0.75%	(2018 : 1.20%)

Mortality assumptions

A mortality investigation was carried out into the 2019 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 (2018: £40,000) made.

There was no requirement to hold an expense overrun reserve.

The Kensington Friendly Collecting Society Limited
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Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

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 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 (2018: £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 £20,080 (2018: £26,983) and the Society charged Careys £22,083 (2018: £20,473) in respect of these common overheads. This sharing of costs enables economies of scale to be realised. At the year end the sum of £1,029 (2018: £3,934) was due from the Society to Careys and Careys owed the Society £780 (2018: £2,749).

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 £8,642 (2018: £6,843) 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 2019 there were £543 outstanding contributions (2018: £373).

19 Financial instruments

The carrying amounts of the financial instruments are as follows:

	2019	2018
	£	£
Financial assets		
Measured at fair value through income or expenditure		
- Fixed asset listed investments (note 11)	7,807,182	7,065,741
Debt instruments measured at undiscounted amounts receivable		
- Debtors arising on direct insurance operations	12,235	21,075

The Kensington Friendly Collecting Society Limited
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Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

20 Capital commitments

	2019	2018
	£	£
Contracted for but not provided for in the financial statements	3,400	20,250

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).

21 Post balance sheet event

Coronavirus (Covid-19) has been identified as a significant non-adjusting post balance sheet event. As a result of the pandemic the Committee of Management has taken the following steps to monitor and protect the financial position of the Society:

- A suspension of a reversionary bonus for 2019 and a reduction to the level of terminal bonuses.
- A switch from equity to government gilts and fixed interest investments to guard against significant falls in investment values.
- A mortality review has been conducted which forecasts that the Society will be able to satisfy its regulatory solvency requirements and meet its commitments to members for the foreseeable future.

There remains uncertainty over the magnitude of the effect on the Society and the recession that will result from the above pandemic. The Society is therefore unable to estimate the full financial impact that this will have at this stage. The Committee of Management however believes that as a result of the above actions the Society will be able to satisfy its regulatory solvency requirements and its commitments to members for the foreseeable future.