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1 Kensington Road, Middlesbrough, Cleveland TS5 6AL

Telephone: 01642 855199 Fax: 01642 850581
www.kensingtonfriendly.co.uk

The Kensington Friendly Collecting Society Limited

**108th Annual Report
of the Committee of Management
for the Year Ended 31 December 2012**

The Kensington Friendly Collecting Society Limited

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The Kensington Friendly Collecting Society Limited

**Committee of Management and Independent Advisors
for the Year Ended 31 December 2012**

Committee of Management

	Non-Executive Directors	First Election	Last Re-election
Chairperson	Mark Brooks	June 2005	June 2012
Senior Independent Director	David McTiernan David Kirk Peter Hawkins Peter McTiernan Jacqueline Allenby Jamie Brown Christine Scott Gary Ferguson	June 1993 June 2005 June 2006 June 2006 June 2006 June 2011 June 2011 June 2012	June 2012 June 2012 June 2012 June 2012 June 2012 June 2012 June 2012 June 2012
	Executive Directors		
	Philip Carey Jane Healey Brian Douglass	June 2006 June 2006 June 2012	July 2012 Left June 2012
Chief Executive	Philip A Carey 1 Kensington Road Middlesbrough TS5 6AL		
Treasurer (to 30 June 2012)	Jane A Healey 1 Kensington Road Middlesbrough TS5 6AL		
Company Secretary (From May 2012)	Brian H Douglass 1 Kensington Road Middlesbrough TS5 6AL		
Internal Auditor	Ronnie Brown 1 Kensington Road Middlesbrough TS5 6AL		
<u>Professional Advisors</u>			
Actuarial Function and With Profits Actuary	Steve Dixon Steve Dixon Associates LLP Oaks House 12-22 West Street Epsom Surrey KT18 7RG		
External Auditors	Anderson Barrowcliff LLP Waterloo House Teesdale South Thornaby Place Thornaby on Tees TS17 6SA		
Solicitors	Endeavour Partnership LLP Westminster St Marks Court Teesdale Business Park Thornaby on Tees TS17 6QP		

The Kensington Friendly Collecting Society Limited

Committee of Management and Independent Advisors
for the Year Ended 31 December 2012

Professional Advisors continued/.....

Stockbrokers

Redmayne Bentley
Church House
College Square
Stokesley
Middlesbrough
TS9 5DN

Compliance Consultants

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

Enquiries

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

The Kensington Friendly Collecting Society Limited

Chairperson's Report
for the Year Ended 31 December 2012

The past twelve months have again provided the Society's management, employees and advisors with numerous challenges. We started the year in a post Retail Distribution Review era and I am delighted to say that the effort of the Society's staff throughout 2012 resulted in a smooth transition to non-advised sales.

The Society maintains a relatively healthy solvency position but this result is due to implementation of significant cost cutting measures that were necessary to ensure the long term health of the Society, coupled with tight stewardship of the investment portfolio to ensure maximum solvency. The Board wishes to thank the staff of the Society for accepting the necessary changes to ensure that the expenses of the Society are controlled and would like to thank its investment advisors for their diligence throughout 2012.

Due to the current fragile economic climate the need to manage costs continues and the Board have taken the decision not to award a reversionary bonus to any policies for 2013. This is required to ensure we protect solvency. The Board have increased the terminal bonus for the next twelve months which will benefit those members who have policies maturing in the coming twelve months.

Finally I would like to thank the Society's staff and fellow Board members who have supported me as Chairman since my appointment in 2010. I am standing down as Chair this summer to take over the role of Compliance Officer for the Society and the current Vice Chairman Peter Hawkins is taking up the role of Chairman. I am confident that Peter will take the Society forward to become a stronger entity and I would like to think that the changes I have been involved in over recent years have left the Society with a firm foundation for progress.

Mark Brooks

Date: 26 April 2013

The Kensington Friendly Collecting Society Limited

Chief Executive's Report
for the Year Ended 31 December 2012

It is five years since the credit crunch and then the financial crash but it is impossible to describe the performance of the Society without reference to those events.

Since the summer of 2008 the volatility of the investment markets, combined with the Society's solvency requirements, meant that the Board has followed a cautious investment strategy. There has been growth in the fund and some of the fixed income investments have made significant gains but in the long term real returns for members will only be generated by the Society increasing its exposure to riskier investments like equities. Whilst the markets remain volatile and susceptible to on-going crises, as in Europe, the Society's investment managers are slowly re-entering the equity market with a medium term plan to make the investment fund more balanced in its asset allocation. Whilst this is occurring the Board have decided to optimise capital reserves to enable the Society to ride out any extreme volatility in the markets. This has regrettably lead to the Board not declaring reversionary bonuses this year. This has however been offset by a 33% increase in terminal bonuses for all policies that are entitled to them. The Board do not see this as a long term strategy and will look to restore reversionary bonuses at the earliest opportunity.

Equally the Board have applied cuts to the salaries of agents and staff and this has significantly affected the statutory valuation with the expense reserve reducing from £433k in 2011 to £242k in 2012. The Board are grateful to the agents and staff who accepted these changes with pragmatic regret!

The Society had a demanding year with retaining existing business and it was this more than a failure to generate new business that contributed to stagnation in premium growth. The outlook for 2013 is no better with anticipated decline in annual income during 2013 of £722 for every working age adult in Middlesbrough according to the Financial Times. This will continue to feed members' requests for surrenders.

The Board are confident that the Society has the financial resources and the determination of its employees to ride through this prolonged storm. To that extent the Board have requested the Society's actuary to develop new products and revise the existing rate tables. It is anticipated that these will come into force early in 2014.

The Society remains one of the few friendly societies that can legitimately claim to provide savings and protection plans to those excluded by mainstream organisations. The changes to bonuses and salaries described above will ensure that the Society is in a much stronger position to provide this service once the recovery arrives.

Phil Carey

Date: 29 April 2013

The Kensington Friendly Collecting Society Limited

**Report of the Committee of Management
for the Year Ended 31 December 2012**

The Management Committee present their annual report, together with the audited financial statements of the Society for the year ended 31 December 2012. The Committee of Management Members during the year are those shown on page 1.

Society Membership

	Number of Members	Total Policies
Live	6,969	16,419
Live including Free Paid Up	9,814	20,121

Business Objectives and Activities of the Society

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

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

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

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

Business Review

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

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

The Kensington Friendly Collecting Society Limited

**Report of the Committee of Management
for the Year Ended 31 December 2012**

Business Review continued/.....

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

- The Society made no political donations during the financial year.
- The Society is a member of the Association of Financial Mutuals (AFM).
- As at the 31 December 2012, the Society had in the opinion of the Actuarial Function Holder the required solvency margins prescribed in section 48(2) Friendly Societies Act 1992.
- During the year the Society maintained liabilities insurance cover of £2 million for its Management Committee and other officers.
- The Society aims to achieve high standards of integrity and fairness in its dealings with Members and any complaints are dealt with due care and sensitivity. Complaints are investigated thoroughly and impartially as per the Society's dispute and complaints procedures and access to an independent adjudicator is available through the Financial Ombudsman Service Bureau Ltd. Members can also contact the Senior Independent Director to resolve issues by e-mail (david.mctiernan@ntlworld.com)

Statement of the Committee of Management's Responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- state whether the financial statements have been prepared in accordance with the requirements of the Friendly Societies Act 1992;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume the Friendly Society will continue in business.

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

Auditors

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

On behalf of the Committee of Management

B H Douglass Company Secretary

Date: 16th May 2013

The Kensington Friendly Collecting Society Limited

Report of the Committee of Management for the Year Ended 31 December 2012

Corporate Governance

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

Compliance with the Annotated Combined Code for Mutual Insurers

The Kensington is committed to a high standard of corporate governance. It is classed as a small Society under the Annotated Combined Code for Mutual Insurers. It reports the following exceptions to the code for the period ending 31 December 2012.

- Until May 2012 the Chief Executive also acted as the Company Secretary. From this date the roles of Chief Executive and Secretary have been held by separate people.
- The Committee do not run formal member forums as they believe that the nature of the home collection service, together with the Member Relations Policy (see below), ensure that close links are maintained with the members and issues arising can be appropriately addressed.
- Certain information required to be displayed on the Society website was not fully available. A full review of the website is to be carried out in 2013 to ensure that all the necessary information is available.
- The Society does not currently have a gender diversity policy. It is the intention of the Committee to address this matter during 2013.
- The Remuneration of the Executive Directors do not have formal performance related elements and the Remuneration Committee do not formally assess remuneration relative to other organisations. The remuneration of the Executives is set by the Remuneration Committee with reference to the overall performance of the Society and the individual together with the overall economic conditions relevant to the Society and the area that it operates in. The Committee believe that this method is appropriate to the size and complexity of the Society.
- The Company Secretary, an Executive Director, serves on the Audit and Risk Committee as the Committee believe that his experience of auditing and other financial issues will benefit the work of the Audit and Risk Committee.

Relations with the Society's Members

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

The Committee of Management

The Committee of Management currently comprises of eleven Members, nine of whom are Non-Executive Members.

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

Chairperson

Mark Brooks was elected as the Chairperson of the Society in September 2009 and is responsible for the leadership of the Committee of Management. Mark Brooks does not hold any other non-executive role and is able to devote sufficient time to his role as Chairperson. The Chairperson is committed to working for the Society for approximately 20 days per annum.

The Kensington Friendly Collecting Society Limited

**Report of the Committee of Management
for the Year Ended 31 December 2012**

Senior Independent Director

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

Chief Executive

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

Election and re-election

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

External Memberships

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

Non-Executive Committee Members

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

Independence

The Annotated Combined Code for Mutual Insurers recommends that at least half of the Committee of Management excluding the Chairman should comprise of independent Non-Executive Members. It also considers that Members of the Committee of Management of the Society who have served longer than 9 years are not to be considered as independent unless the Society can explain why they can be regarded as independent. The following establishes the reasons why the Committee of Management considers that David McTiernan remain independent in spite of his service on the Committee of Management exceeding nine years and why he should be re-elected at the AGM on 12 June 2013.

David McTiernan

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

Kensington Friendly Collecting Society Limited

Report of the Committee of Management for the Year Ended 31 December 2012

How the Committee of Management operates

Meetings of Non-Executive Committee Members

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

Terms of Appointment

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

Time Commitment

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

How the Committee of Management operates

Committee of Management Meetings

The Committee of Management met five times in 2012. The table below shows Board member attendance at all committees.

	Committee of Management	Finance & Investment	Audit & Risk	Remuneration & Assessment	Nomination
Attendances possible	5	3	3	1	1
David McTiernan	5	3	N/A	1	1
David Kirk	4	N/A	3	1	1
Mark Brooks	5	3	N/A	1	1
Jacqueline Allenby	3	N/A	3	1	N/A
Peter Hawkins	5	3	N/A	1	1
Peter McTiernan	5	N/A	3	1	N/A
Philip Carey	5	3	N/A	N/A	1
Jane Healey	1/1	2/2	N/A	N/A	N/A
Christine Scott	5	N/A	3	1	N/A
Jamie Brown	4	N/A	3	1	N/A
Gary Ferguson	5	2/3	N/A	1	N/A
Brian Douglass	3/4	N/A	1/2	N/A	N/A

Society Secretary

The Chief Executive of the Society, Philip Carey, also acted as Company Secretary for the period until May 2012. Following a review by the Committee of Management the role of Chief Executive and Company Secretary were split and Brian Douglass joined the Society in May 2012 as Company Secretary. Brian Douglass, the Society Secretary, is responsible for advising the Committee of Management through the Chairman on all governance matters. The Members have access to the advice and services of the Society Secretary.

Kensington Friendly Collecting Society Limited

Report of the Committee of Management for the Year Ended 31 December 2012

Committee of Management Responsibility and Delegation

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

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

Independent professional Advice

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

Insurance Cover

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

Committee of Management Effectiveness

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

Induction and Continuing Professional Development

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

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

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

Internal Control

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

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

Kensington Friendly Collecting Society Limited

Report of the Committee of Management for the Year Ended 31 December 2012

Internal Control continued/....

Strategy and Financial Reporting

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

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

Organisational Structure and reporting Procedures

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

Control environment

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

Risk Assessment

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

Reviewing and Monitoring the Effectiveness of Internal Controls

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

Committee of Management sub Committees

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

Audit & Risk Committee

During 2012 the Audit & Risk Committee comprised the following Members

David Kirk - Chairperson
Peter McTiernan
Jacqueline Allenby
Jamie Brown
Christine Scott
Brian Douglass - from May 2012

The Committee normally meets three times a year. The Annotated Combined Code for Mutual Insurers requires the Committee of Management to be satisfied that at least one member of the Committee of Management has recent and relevant experience. The Committee of Management has considered this requirement and concludes that the academic, business and financial experience of the Members as a whole enables the Committee to fulfil its terms of reference in a robust and independent manner. The Committee as a whole has the opportunity to meet privately with the internal auditor and external auditor at any time. The internal auditor attended every meeting during 2012.

Kensington Friendly Collecting Society Limited

Report of the Committee of Management for the Year Ended 31 December 2012

Audit and Risk Committee continued/....

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.

Activities in 2012

The Audit & Risk Committee met three times in 2012 and discharged its responsibilities by:

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

Remuneration Committee

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

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

Nomination Committee

This comprises the following:-

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

Its terms of reference are available on the Society's website. It met on one occasion during 2012. The Board did not require any further Board Members during 2012. In the past it has not used an external search consultancy preferring to source candidates via alternative and more cost effective methods such as referral by existing Board Members.

Kensington Friendly Collecting Society Limited

Report of the Committee of Management for the Year Ended 31 December 2012

Finance and Investment Committee

This comprises the following:-

Mark Brooks - Chairperson
David McTiernan
Peter Hawkins
Philip Carey
Jane Healey - to May 2012
Gary Ferguson

It met on three occasions during 2012. Its terms of reference are available on the Society's website. During 2012 the Committee reviewed the Society's investment strategy. Its main activity is to ensure that the executive is performing to budget and target and monitor the investment performance of the Society's brokers Redmayne Bentley.

Committee of Management Biographies

Mark Brooks Age 40 Chairman

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

Peter Hawkins Age 55 Vice Chair

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

David McTiernan Age 72 Senior Independent Director

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

David Kirk Age 61 Chair of Audit and Risk

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

Phil Carey Age 48 BA (Dip PFS) Chief Executive

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

Jane Healey Age 45 Treasurer

Jane has been employed by the Society since 1983 and was appointed Treasurer of the Society in 1999. Jane was elected onto the Committee of Management in 2006. Jane left the Society in June 2012.

Kensington Friendly Collecting Society Limited

**Report of the Committee of Management
for the Year Ended 31 December 2012**

Committee of Management Biographies continued/....

Jacqueline Allenby (previously O'Connor) Age 50

Jacqueline was elected on to the Board in 2006. Jacqueline is an Area Business Standards Manager which is an audit role covering all the branches in Teesside for the Halifax Building Society. Jacqueline serves on the Full Board and the Audit and Risk Committee.

Peter McTiernan MRICS Age 56

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

Jamie Brown Age 38

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

Christine Scott Age 50

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

Gary Ferguson Age 53

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

Brian Douglass Age 47 BA (Hons) FCCA Company Secretary

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

Kensington Friendly Collecting Society Limited

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

We have audited the financial statements of the Kensington Friendly Collecting Society Limited for the year ended 31 December 2012 which comprise the Income and Expenditure Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Society's members, as a body, in accordance with section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Committee of Management and auditor

As explained more fully in the Committee of Management's Responsibilities Statement set out on page 6, the Committee of Management is responsible for preparing financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Boards (APB's) ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Society's affairs as at 31 December 2012 and of income and expenditure of the Society for the year then ended; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

Opinion of other matters prescribed by the Friendly Societies Act 1992

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

Matters on which we are required to report by exception

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

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

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

Date: 16th May 2013

Kensington Friendly Collecting Society Limited

Income and Expenditure Account
for the Year Ended 31 December 2012

Technical Account - long term business

	Note	2012 £	2011 £
Earned premiums	3	757,963	758,514
Investment income	4	374,948	326,923
Unrealised (losses)/gains on investments	4	<u>(31,613)</u>	<u>264,551</u>
		<u>1,101,298</u>	<u>1,349,988</u>
Claims incurred	5	743,597	661,300
Changes in other technical provisions	11	93,751	554,959
Net operating expenses			
Acquisition expenses	6	74,470	93,277
Administrative costs	6	197,388	172,284
Investment expenses and charges	6	98,426	81,047
Transfer from the fund for future appropriations	11	<u>(106,334)</u>	<u>(212,879)</u>
		<u>1,101,298</u>	<u>1,349,988</u>
Balance on the technical account - long term business		<u>-</u>	<u>-</u>

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

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

The notes on pages 18 to 26 form an integral part of these accounts.

Kensington Friendly Collecting Society Limited

Balance Sheet as at 31 December 2012

	Note	2012 £	2011 £
Assets			
Investments			
Land and buildings	9	225,000	225,000
Other financial investments		6,693,504	5,704,326
Debtors			
Debtors arising on direct insurance operations		32,400	44,564
Taxation recoverable		5,494	9,352
Other assets			
Tangible assets	10	9,239	4,153
Cash at bank and in hand		122,960	1,074,921
Prepayments and accrued income			
Accrued income		41,278	34,425
Prepayments		7,033	5,994
		<u>7,136,908</u>	<u>7,102,735</u>
Liabilities			
Fund for future appropriations			
	11	1,128,643	1,234,977
Technical provisions			
Long term business provision	11	5,932,682	5,838,931
Creditors			
Taxation and social security		6,762	6,374
Other creditors		68,821	22,453
		<u>7,136,908</u>	<u>7,102,735</u>

The financial statements were approved and authorised for issue by the Committee of Management on 16th May 2013 and were signed on their behalf by:-

Mark Brooks

Phil Carey

The notes on pages 18 to 26 form an integral part of these accounts

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

1 Basis of preparation

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

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

2 Accounting Policies

Premium income

Earned premiums are accounted for as they fall due.

Investment income and expense

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

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

Unrealised gains and losses

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

Claims

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

Acquisition costs

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

Taxation

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

Pension costs

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

Investments

Investments are valued at mid-market value at the year end. Unrealised gains and losses are calculated as the difference between the valuation and original cost over the year. All unrealised gains and losses are included in the long term business technical account.

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

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

2 Accounting Policies continued/.....

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

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

Depreciation

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

Fixtures & fittings 25% per annum on straight line basis

Long term business provision

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

Funds for future appropriations

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

3 Earned premiums

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

4 Investment income

	2012	2011
	£	£
Income from land and buildings	(137)	1,833
Income from listed investments	227,280	244,702
Gains on investments realised	138,028	73,496
Bank interest	9,777	6,892
	<u>374,948</u>	<u>326,923</u>
	2012	2011
	£	£
Unrealised gains	-	264,551
Unrealised losses	(31,613)	-
	<u>(31,613)</u>	<u>264,551</u>

The Society has no unlisted investments.

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

5 Claims incurred

	2012	2011
	£	£
Deaths	225,070	258,261
Maturities	175,618	148,098
Surrenders	174,413	128,269
Bonuses in cash	65,885	46,575
	<hr/>	<hr/>
	640,986	581,203
Claims processing expenses	102,611	80,097
	<hr/>	<hr/>
	743,597	661,300
	<hr/> <hr/>	<hr/> <hr/>

6 Expenses

	2012	2011
	£	£
Acquisition expenses	74,470	93,277
Administration	197,388	172,284
Investment expenses and charges	98,426	81,047
Claims processing expense	102,611	80,097
	<hr/>	<hr/>
	472,895	426,705
	<hr/> <hr/>	<hr/> <hr/>

	2012	2011
	£	£
Committee and staff remuneration (see below)	321,217	286,386
Audit	19,320	18,200
Actuary	45,405	34,456
Stockbroker	30,803	30,504
Depreciation	3,011	2,816
Other overheads	44,373	48,316
Registration fees and subscriptions	8,766	6,027
	<hr/>	<hr/>
	472,895	426,705
	<hr/> <hr/>	<hr/> <hr/>

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

	2012	2011
Committee	11	12
Administration	4	3
Sales	18	19
	<hr/>	<hr/>
	33	34
	<hr/> <hr/>	<hr/> <hr/>

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

Expenses continued/.....

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

	2012	2011
Committee members	85,222	96,531
Staff wages	188,633	168,523
Compensation for loss of office	25,725	-
Social security costs	17,800	17,678
Pension contributions	3,837	3,654
	<u>321,217</u>	<u>286,386</u>

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

	2012	2011
£1 - £5,000	9	10
£5,001 - £10,000	1	-
£15,001 - £20,000	1	-
£25,001 - £30,000	-	1
£45,001 - £50,000	1	-
£55,001 - £60,000	-	1
	<u>12</u>	<u>12</u>

The Chairman received £3,190 and the highest paid member of the Committee received £45,163.

7 Audit fees

	2012	2011
	£	£
Audit	17,340	-
Other work	1,980	18,200
	<u>19,320</u>	<u>18,200</u>

8 Actuaries fees

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

	2012	2011
	£	£
Valuation work	18,000	14,100
Under provision from prior year	14,400	-
Special work	13,005	20,356
	<u>45,405</u>	<u>34,456</u>

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

9 Investments

Land and buildings

	2012	2011
	£	£
At 1 January 2012 and 31 December 2012	<u>225,000</u>	<u>225,000</u>

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

On 23 February 2011 the directors obtained an independent valuation of the freehold property prepared by Thomas Stevenson, Chartered Surveyors, at £225,000. The valuation was carried out in accordance with the RICS Valuation Standards. The basis of valuation was existing use value, for those parts of the property occupied by the Society, and market value for the remainder. The property is freehold; it is partially let to third parties, income from which is reflected in investment income. The historical cost of land and buildings at 31 December 2012 was £336,610 (2011 - £336,610). At 31 December 2012 the valuation has not been updated as the directors are not aware of any material change in value.

Other financial investments

	2012		2011	
	Market Value	Cost	Market Value	Cost
	£	£	£	£
British funds	5,735,286	5,239,023	4,761,025	4,120,924
Foreign bonds	530,750	456,513	492,975	456,513
Fixed interest	427,468	383,869	450,326	481,178
	<u>6,693,504</u>	<u>6,079,405</u>	<u>5,704,326</u>	<u>5,058,615</u>

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

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

10 Tangible assets

	Fixtures and fittings	Total
	£	£
Cost		
At 1 January 2012	40,721	40,721
Additions	8,097	8,097
At 31 December 2012	48,818	48,818
Depreciation		
At 1 January 2012	36,568	36,568
Charge for the year	3,011	3,011
At 31 December 2012	39,579	39,579
Net Book Value at 31 December 2012	9,239	9,239
Net Book Value at 31 December 2011	4,153	4,153

11 Funds and technical provisions

	Long term business provision	Fund for future appropriations
	£	£
At 1 January 2012	5,838,931	1,234,977
Transfer to/(from) the technical account	93,751	(106,334)
At 31 December 2012	5,932,682	1,128,643

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

Future rate of interest earned	with profit policies	1.80%	(2011 – 2.00%)
	Non-profit policies	2.05%	(2011 – 2.25%)
Mortality	English Life Tables No 14		

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

12 Realistic Reporting

Capital Statement

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

As the Society has no shareholders, all capital belongs to its members. A summary of the available capital resources at the end of 2011 and 2012 are as follows:

	2012	2011
	£	£
Fund for future appropriations	1,128,643	1,234,977
Asset admissibility rules	(15,990)	(10,903)
Resilience reserve	(61,973)	(10,182)
Expense reserve	(241,826)	(433,878)
Total available capital resources	<u>808,854</u>	<u>780,014</u>

Total available capital resources at the end of 2012 are 291% of the required minimum margin.

The movement in the available capital resources during 2012 is analysed as follows:

	2012
	£'000
Starting available capital resources	780
Change in assumptions in the valuation basis	(255)
Economic factors – investments	68
Economic factors – expenses	142
Deficit on new business	(30)
Surplus on surrenders	69
Surplus on remaining demographic items	42
Cost of reversionary bonus above margins set aside for bonus	14
Interim and terminal bonuses paid on maturities	(21)
Available capital resources at end of year	<u>809</u>

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

12 Realistic Reporting continued/.....

Risks

Approximately 94% of the assets of the fund are held in UK bonds for which changing market conditions can affect bond values and future returns. The Society currently has no equity holdings. The market value of the society's offices is approximately 3% of the fund and is subject to movements in the office property market. The Society has most of the remaining assets held in cash deposits which are sensitive to changes in the Bank of England base interest rate.

The valuation interest rate is determined by the overall return achieved on the assets held by the fund. For the fixed interest stocks the yield is reduced by an appropriate factor based on the perceived risk of each individual bond. The society has minimal property rental income after expenses and any yield is adjusted by 0.5% as an additional allowance or risk. The overall yield figure for each asset is then adjusted downwards by multiplying by 97.5% to allow for more general risk. The interest rate is then reduced by a further 0.25% to allow for an implicit margin for future bonuses.

In order to ascertain the exposure to market risk, the Actuarial Function Holder carried out a Resilience Test as per IPRU (FSOC) Annex 4 Section 12. This involved carrying out 2 tests; a fall in property values of 20% with a 10% fall in rental income and an equity fall of 10% together with a 10% fall in earnings, combined with either a rise or fall in bond yields of 0.46%. It was the scenario with the rise in bond yields that produced the greater change, and this was modelled in the valuation by increasing the valuation interest rate by 0.4% for both premium paying and paid up policies. The decrease in the value of assets (£438K) less the decrease in the value of liabilities (£376K) resulted in a resilience reserve of £62K.

The expense margins on the policies have stayed the same as the previous year's valuation. Allowances of 20% of all premiums received for quinquennial policies and 25% of all premiums for endowment and whole of life policies and 0.85% p.a. of funds under management were used. The latter is allowed for as an additional margin between the valuation rate of interest and the anticipated rate of future investment return. A net premium test was then carried out to ensure the 75% and 80% restrictions provided sufficient margins.

The total expenses incurred by the fund were then analysed to get those that would occur if running it as a closed fund, and the remainder. The closed fund expenses are covered by the above expense margins and so no closed fund expense overrun reserve is required. A reserve of £53K is required for the costs of redundancy and any other costs of closing to new business not covered by the expense margins. A further £189K expense over-run reserve is required for the additional costs of new business not allowed for within the premium rates over the next financial year. This is based on the Society selling the same amount of new business as for the previous financial year. The total of these expense reserves has then been rounded up to £242K.

Mortality investigations have been carried out for the 2010, 2011 and 2012 financial years. The actual allowance for mortality is 110% of the ELT 14 male and female mortality tables which preserves a prudent margin on the experience of the Society.

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

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

13 Capital commitments and contingent liabilities

There were no capital commitments or contingent liabilities at 31 December 2012 or 2011.

Kensington Friendly Collecting Society Limited

Notes to the Financial Statements for the Year Ended 31 December 2012

14 Transactions with related parties

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

The Society leases office space to Careys at an annual rental of £6,000 (2011: £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 £25,203 and the Society charged Careys £18,309 in respect of these common overheads. This sharing of costs enables economies of scale to be realised. At the year end the sum of £836 was due from the Society to Careys.

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