

**The Kensington Friendly Collecting Society Limited  
(FRN: 110058)**

**112th Annual Report  
of the Committee of Management  
for the Year Ended 31 December 2016**

**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 2016**

<b>Registered Office</b>	1 Kensington Road Middlesbrough TS5 6AL		
<b><u>Committee of Management</u></b>	<b>Non-Executive Directors</b>	<b>First Election</b>	<b>Last Re-election</b>
Chairperson	Peter Hawkins	June 2006	June 2016
	David McTiernan	June 1993	Retired June 2016
	David Kirk	June 2005	Retired June 2016
Senior Independent Director	Mark Brooks	June 2005	June 2016
	Peter McTiernan	June 2006	June 2016
Vice Chairperson	Jamie Brown	June 2011	June 2016
	Christine Scott	June 2011	June 2016
	Gary Ferguson	June 2012	June 2016
	Debra Barker	June 2015	June 2016
	Gillian Dobson	June 2015	June 2016
	Andrew Douthwaite	Seeking election at the 2017 AGM	
	<b>Executive Directors</b>		
	Philip Carey	June 2006	June 2016
	Brian Douglass	June 2012	June 2016
<b>Chief Executive</b>	Philip A Carey 1 Kensington Road Middlesbrough TS5 6AL		
<b>Company Secretary</b>	Brian H Douglass 1 Kensington Road Middlesbrough TS5 6AL		
<b>Internal Auditor</b>	Jacqueline Allenby 1 Kensington Road Middlesbrough TS5 6AL		
<b><u>Professional Advisors</u></b>			
<b>Appropriate Actuary</b>	Lisa Staker Steve Dixon Associates LLP Oaks House 12-22 West Street Epsom Surrey KT18 7RG		
<b>External Auditors</b>	Anderson Barrowcliff LLP 3 Kingfisher Court Bowesfield Park Stockton on Tees TS18 3EX		
<b>Solicitors</b>	Endeavour Partnership LLP Tobias House St Marks Court Teesdale Business Park Thornaby on Tees TS17 6QW		

**The Kensington Friendly Collecting Society Limited**

**Committee of Management and Independent Advisors**  
**for the Year Ended 31 December 2016**

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

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

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

**Compliance Consultants** David Williams  
Haven Risk Management 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](mailto:philcarey@careyskens.com)

**The Kensington Friendly Collecting Society Limited**

**Chairperson's Report**  
**for the Year Ended 31 December 2016**

Welcome to the Annual Report and Accounts of Kensington Friendly Collecting Society Limited for 2016.

2016 will be remembered for two main events, the effects of which have, and will continue to shape our country for many years to come. Both the Brexit vote and the result of the Presidential Election in the United States were two events that appeared 'very unlikely' at the turn of the year but which came to fruition, with unpredictable outcomes for the future. How they will influence the Kensington Friendly Collecting Society Limited is still uncertain but, perhaps unexpectedly, their effects to date have been positive on our performance over the past 12 months.

Despite a 'market crash' in February 2016, which resulted in us selling all our stake in equities, the resulting investment in fixed interest gilts paid dividends for us by returning a 13.5% increase in our portfolio to December 2016 which, given that the FTSE rallied to an all-time high of 7142 by the end of December, seems more remarkable. This has enabled us to set what we consider to be 'reasonable' bonus rates for this year, while still using some of the gains to diversify our portfolio going forward, which will hopefully reap further long-term benefits for all our members.

Given the volatility in the markets over the past year it is comforting to know that our relationship with our advisers continues to thrive. We are very well served by both Jackie Crawley and her excellent team at LGT Vestra LLP (Investment Managers) and by Lisa Staker (Actuary) of Steve Dixon Associates LLP, with both organisations working in unison to ensure the advice given to the Board of Management enables us discharge our duties as effectively as possible.

Despite the continued effects of austerity across the whole region, our agents and all the office staff have successfully promoted the positive aspects of the Society, with new business and collections continuing to be strong. Our thanks to all involved in the 'day to day' running of the organisation – your efforts are greatly appreciated. On a personal note, I would like to record the death of our colleague and former Chairman, Dave Hare, whose work for the Society over many years contributed greatly to the position we are in today.

I would like to thank the CEO, Company Secretary and all my fellow board members, without whose help and commitment my position would be a great deal more onerous than it is. I look forward to your ongoing support and advice in ensuring the future wellbeing of the Kensington Friendly Collecting Society Limited.

Here's hoping for continued success in 2017.

Peter Hawkins

Chairman

11 May 2017

**The Kensington Friendly Collecting Society Limited**

**Chief Executive's Report**  
**for the Year Ended 31 December 2016**

During my term as chief executive I have had two primary concerns: the solvency position of the Society and the sustainability of the Society's business model. Once again 2016 threw down some solvency challenges when investment markets stalled in February and the Society's equity holdings had to be sold and reinvested in gilts to protect its capital position. The relatively good news of this event is that gilts went onto reach prices that even two years ago would have been unimaginable, resulting in the Society's investment managers, LGT Vestra LLP, securing a 13.5% return on the members' fund. This helped to improve the capital position of the Society and enabled Steve Dixon Associates LLP, the Society's actuarial providers, to increase terminal bonuses for 2017 by 25%. This is good news for the members and has enabled the board and its advisors to develop a medium-term plan to diversify part of the members' fund back into equities.

The sustainability of the business model has always been a key focus of the board, which has been intensified since the financial crisis of 2007/2008. During 2016 premium income increased by 4% which is a modest indicator that both the products and method of delivery remain viable. But the Society is not simply about preserving a business model. It also seeks to uphold a set of beliefs that those on lower incomes should have access to financial products at a price they can afford and with a payment process that is both flexible and forbearant should a member's circumstances change. Our Society is unique in providing such a service and this belief should always be at the bedrock of its existence.

However, providing small premium products to members who often have variable and insecure incomes is inevitably a more expensive business model than distributing products to the mainstream market. In addition, and unlike many Third Sector organisations which attempt to fill this space, this Society has no access to external funding to subsidise its activities. To maintain this business model we need to be self-funded and over the last five years we have achieved this by re-shaping commissions, introducing the collection charge, salary reductions and close control over other cost centres. Over the longer term we need to increase sales and consider other revenue activities such as white labelling, but we also need to broaden our target demographic and be less one-dimensional in the way in which we offer our products to new members.

The board have given this dilemma a great deal of consideration and are engaging with Calm Digital to develop an internet presence which will help us attract new members who will be able to purchase and arrange payment for their products online. To do this successfully we need a trading name which more accurately reflects the Society's geographical area of operations than the Kensington, which to non-members could too easily confuse with one of the UK's wealthiest neighbourhoods.

This strategy will take time to make an impact and it will involve spending members' funds to develop and promote. But it is essential that we do this, or the Society will be unable to maintain its core business model over the longer term.

Over the course of the year I have, as always, received great support from the Society's agents, staff, advisors and the board of management. However, I would particularly like to pay tribute to Peter Hawkins, who will retire from the board and as the Society's chairman in September 2017. Peter joined the Board in 2006 and became Chairman in 2013 and during that period he has been a great servant of the Society. As chairman he has managed the board with pragmatism, common sense and with commercial and operational realism. Brian Douglass and I have greatly appreciated his willingness to always make himself available and the collegiate manner in which he led the board. On behalf of everyone connected with the Society I thank Peter for his hard-work and wish him well for the future.

Philip Carey

11 May 2017

## **The Kensington Friendly Collecting Society Limited**

### **Strategic Report of the Committee of Management for the Year Ended 31 December 2016**

The Committee of Management of the Kensington Friendly Collecting Society Limited presents its Strategic Report for the Society for the year ended 31 December 2016.

#### **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.

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 allows members to make provision for savings and funeral expenses.
- To ensure that members' funds and investments are maximised and administered equitably and securely.
- The Society aims to achieve high standards of integrity and fairness in its dealings with members. Complaints are investigated thoroughly and impartially as per the Society's dispute and complaints procedures and access to an independent adjudicator is available through the Financial Ombudsman Service Bureau Limited. Members can also contact the Senior Independent Director to resolve issues by e-mail (mark\_j\_brooks@yahoo.co.uk.).

#### **Business Strategy**

During the period under review the Committee of Management has conducted a review of the activities, products and cost structure. Following this review the committee believes there remains a market for the Society's product range and the home collection service. The committee has embarked upon a strategy to grow the Society's premium income and enhance members' benefits through cost efficiencies and improved investment returns. In addition the committee are currently investigating ways to broaden the target demographic.

#### **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 2016 has remained one of high unemployment, and with an increasing number of members being affected by the Government's welfare sanctions.

#### **Results and Performance**

2016 presented challenging conditions for the Society both in terms of the local operating area and the uncertainty and volatility existing in world financial markets. Although annualised premium income for new business fell from £113,501 in 2015 to £97,128 in 2016, the Society was able to report an overall increase in premium income received of 4% (2015: 0.8%) and a small increase in the policy count over the year.

The volatility within the financial markets resulted in the Society selling its equity holdings in February 2016 and re-investing the proceeds into fixed interest Government stock. At the year end, the portfolio consisted of 95% (2015: 80%) fixed interest and 5% (2015: 20%) equities. The subsequent strength of the fixed interest market throughout the year contributed to the Society achieving an overall investment return of 13.5%. The mix of assets held is determined by the Society's investment managers and is dependent upon the market conditions as the Society seeks to optimise the returns for the benefit of the members within the agreed risk profile.

Throughout the year the Society has endeavoured to maintain a tight control of costs and despite some inflationary pressures has been able to maintain these at the 2015 level.

As a result of this cost control, investment returns and the new premium rate tables introduced in 2015, the Committee of Management is pleased to be able to maintain a reversionary bonus for 2016 at the same rate as 2015 and is also able to increase the level of terminal bonuses. The fund for future appropriations has decreased by £21,131 (2015: increase of £140,981).

## **The Kensington Friendly Collecting Society Limited**

### **Strategic Report of the Committee of Management for the Year Ended 31 December 2016 (continued)**

#### **Corporate Social Responsibility**

The Society is aware of the environmental issues facing the world and, although the Society operates from a single building and does not have a significant impact on the environment, it does take its responsibilities seriously. At all times the executive officers consider the environment in the purchasing of materials at 1 Kensington Road and seek to recycle used supplies, where appropriate.

#### **Future Developments**

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

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

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

As explained in the chief executive's report the Committee of Management are currently developing a strategy to increase the agent network and to develop additional distribution methods for the Society's products.

#### **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.

By order of the Board

Brian Douglass  
Company Secretary  
Date: 11 May 2017



**The Kensington Friendly Collecting Society Limited**

**Committee of Management Biographies**  
**for the Year Ended 31 December 2016 (continued)**

**Peter Hawkins – Chair, Chair of Finance & Investment Committee**

Peter was elected on to the Committee of Management in June 2006 and also serves on the Finance & Investment Committee, Remuneration & Assessment Committee and the Nomination Committee. He owns and manages his own cleaning company, covering Teesside and South Durham, and employing more than 100 staff. Peter is currently the Chair of Governors at a local primary school where he has been on the governing body for more than 20 years. He is also on the board of directors at a local Catholic Multi-Academy Trust.

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

**Mark Brooks BSC (Hons) – Senior Independent Director, Chair of Remuneration & Assessment Committee**

Mark was elected on to the Committee of Management at the 2005 annual general meeting and was Chairman 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 was appointed Senior Independent Director in January 2016. He has served on all the Society Committees and currently chairs the Remuneration & Assessment Committee, serves on the Finance & Investment Committee and the Nomination Committee.

Mark lives in Middlesbrough with his wife and children and works in the chemical industry on Teesside, which he has been involved in for more than 25 years.

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

Jamie was elected to the Committee of Management in June 2011 and also serves on the Audit & Risk Committee, the Nomination Committee and the Remuneration & Assessment Committee. After obtaining a degree in Geology from Manchester University, Jamie was employed as a geologist in oil exploration before re-training and qualifying as a solicitor in 2002. He is now a partner in a firm of business lawyers based in the Tees Valley, specialising in commercial property transactions and environmental law.

Jamie is currently Vice Chair of the Society and in January 2016 became Chairman of the Audit & Risk Committee.

**Philip Carey BA (Dip PFS) – Chief Executive**

Philip has been employed by the Society since 1987. He started work with the Society as a clerk, then as a Society Representative, becoming Sales Manager in 1992. He was appointed Chief Executive in June 2004 and elected on to the Committee of Management in 2006. Philip also serves on the Finance & Investment Committee and the Nomination Committee. Philip served on the Financial Conduct Authority's Small Business Practitioner Panel from September 2015 to October 2016.

**Peter McTiernan BSC MRICS, APA**

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

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

**Christine Scott ACMA**

Christine was elected on to the Committee of Management in June 2011 and currently serves on the Finance & Investment Committee and the Remuneration & Assessment Committee having previously also served on the Audit & Risk Committee. Christine is an associate member of the Chartered Institute of Management Accountants and worked in local government finance for 23 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.

**The Kensington Friendly Collecting Society Limited**

**Committee of Management Biographies**  
**for the Year Ended 31 December 2016 (continued)**

**Gary Ferguson**

Gary was elected to the Committee of Management in June 2012 and also serves on the Finance & Investment Committee and the Remuneration & Assessment Committee. Gary lives in Middlesbrough. He left the local steel industry in 1985 to work in financial services as an agent with the Prudential based in its Middlesbrough office. He left the Prudential in 1991 to become an Independent Financial Adviser (IFA) and formed a partnership with several local IFA's. In 1992 he left the partnership to start his own business and since then has been based in the offices of a firm of local accountants as a general IFA dealing with pensions, investments, life assurance and mortgages.

**Brian Douglass BA(Hons) FCCA – Company Secretary**

Brian joined the Society as Company Secretary in May 2012 and was elected on to the Committee of Management in June 2012. He is currently the Compliance Officer of the Society and also serves on the Audit & Risk Committee and the Finance & Investment Committee. After graduating from Teesside University in 1988 with a degree in Business Studies he trained as an accountant, qualifying in 1996. Brian worked in the accountancy profession on Teesside for 22 years and was latterly a partner in a local firm of accountants. Before joining the Society Brian worked within the Finance Department of a local professional sports club.

**Debra Barker CeMap**

Debra joined the Committee of Management in 2014 and also serves on the Audit & Risk Committee and the Remuneration & Assessment Committee. Debra brings a vast knowledge and experience of the financial services industry to the Society, having worked in this environment for 25 years. She spent 21 years with Lloyds Banking Group in a number of roles, managing risk and compliance along with business development and sales across branches in the North East. She has experience of working within a regulated industry and has also worked in HR and was a business partner to a senior manager of the business.

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

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 also a trustee of Unite Limited, a mediation and restorative practice charity based in Middlesbrough, and was formerly a governor and audit committee member of Prior Pursglove College, in Guisborough.

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

**Andrew Douthwaite BSc**

Andrew joined the Committee of Management in November 2016 and also serves on the Audit & Risk Committee. 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 ten years ago into advanced networking and cyber security at his current company, where he is now Vice President of Managed Services.

## **The Kensington Friendly Collecting Society Limited**

### **Corporate Governance Report** **for the Year Ended 31 December 2016**

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

#### **Compliance with the Annotated Combined Code for Mutual Insurers**

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

The board considers that, throughout the period under review, it has applied the relevant principles and complied with the relevant provisions of the Annotated Corporate Governance Code for Mutual Insurers (Dated: September 2015) (the Code).

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

- The Committee does not run formal member forums as it believes that the nature of the home collection service, together with the Member Relations Policy (see below), ensure that close links are maintained with the members and issues arising can be appropriately addressed.
- The remuneration of the Executive Committee members does not have formal performance-related elements and the Remuneration Committee does not formally assess remuneration relative to other organisations. The remuneration of the executives is set by the Remuneration Committee with reference to the overall performance of the Society and the individuals, together with the overall economic conditions relevant to the Society and the area it operates in. The Committee believes this method is appropriate to the size and complexity of the Society.
- During the year four of the Non-Executive Directors had served on the Committee of Management in excess of the nine-year recommendation. Two of these directors, David McTiernan and David Kirk had already given notice and retired from the Society at the 2016 annual general meeting. Peter Hawkins and Peter McTiernan have now served for in excess of nine years. Notwithstanding this, the Committee of Management consider that they remain independent.

The board does not regard the exceptions as material departures.

#### **Relations with the Society's Members**

Under the leadership of the Senior Independent Director a Member Relations Strategy has been established. The Senior Independent Director has visited members at their homes and attended some of the Society representative meetings where many operational issues affecting members' interests are discussed. Notice of the annual general meeting is provided at least 20 working days in advance of the meeting. Members of the Committee of Management will be in attendance at the annual general meeting to answer members' questions.

#### **Complaints Handling**

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

#### **The Committee of Management**

During the year two Non-Executive Directors retired from the Society and a new Non-Executive was appointed. At the year end the Committee of Management comprised 11 members, of which nine were Non-Executive members and two were 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 who have a broad range of business experience and skills. Short biographies of the members are set out on pages 7 and 8.

#### **Chairperson**

Peter Hawkins served as Chairperson throughout the year and does not hold any other non-executive role, other than that disclosed on page 7. He is able to devote sufficient time to his role as Chairperson.

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

**The Kensington Friendly Collecting Society Limited**  
**Corporate Governance Report**  
**for the Year Ended 31 December 2016 (continued)**

### **Senior Independent Director**

In January 2016 Mark Brooks succeeded David McTiernan as the Senior Independent Director. The Senior Independent Director takes the lead role in the performance evaluation of the Chairman and also collates Board Members' opinions in order to express concerns or table agenda items 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 its day-to-day operations.

### **Election and Re-election**

All committee members are required to be elected by the Society's members at the first annual general meeting after their appointment by the Committee of Management. Subsequently all committee members are subject to annual re-election. All current committee members are offering themselves for election/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 elected/re-elected. The Annotated Corporate Governance Code for Mutual Insurers states that a Non-Executive Director's tenure should be for three years before being offered for re-election and that, other than in exceptional circumstances, they should not be re-elected more than twice. This means that the Society would normally regard nine years as being the maximum period for which a Non-Executive Director should serve. The Society also offers Directors for re-election on an annual basis.

### **External Memberships**

With the specific approval of the Committee of Management in each case, executive Committee Members may accept external appointments with other companies and retain any fees paid to them. In addition to his role of Chief Executive, Philip Carey is also the Managing Partner of Careys Consumer Credit, a role that was approved by the Committee at the time of his appointment as Chief Executive. Throughout 2016 Mr Carey served as Chairman of the Consumer Credit Association and he also served as a member of the FCA Small Business Practitioner Panel until October 2016. Both these appointments were approved by the committee at their commencement. Mr Carey retains 100% of the fees payable by the CCA and 50% of the FCA fees, with 50% rebated to the Society via a reduced salary.

### **Non-Executive Committee Members**

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

### **Independence**

The Annotated Combined Code for Mutual Insurers recommends that at least half of the Committee of Management excluding the 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 nine years are not to be considered as independent unless the Society can explain why they can be regarded as independent. During the year David McTiernan (24 years), David Kirk (11 years) who had served for more than the nine years retired from the Society at the annual general meeting. Peter Hawkins (ten years) and Peter McTiernan (ten years) have also exceeded the recommended nine years. Despite this, the Committee of Management considers that there is no evidence that this has adversely affected their integrity or independence and so considers that they remain independent in spite of the length of service. They have both served on the board during some difficult periods of the economic cycle and their experience is valuable to the executive during the current uncertainties and volatility in world financial markets. The Committee of Management considers that all the Non-Executive Directors as set out on page 1 are independent.

## **The Kensington Friendly Collecting Society Limited**

### **Corporate Governance Report** **for the Year Ended 31 December 2016 (continued)**

#### **How the Committee of Management operates**

##### **Meetings of Non-Executive Committee Members**

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

##### **Terms of Appointment**

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

##### **Time Commitment**

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

#### **How the Committee of Management operates**

##### **Committee of Management Meetings**

The Committee of Management met four times in 2016. The table below shows board member attendance at all committees.

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

##### **Society Secretary**

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

##### **Committee of Management Responsibility and Delegation**

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

## **The Kensington Friendly Collecting Society Limited**

### **Corporate Governance Report** **for the Year Ended 31 December 2016 (continued)**

#### **Committee of Management Responsibility and Delegation continued...**

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

#### **Independent Professional Advice**

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

#### **Insurance Cover**

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

#### **Committee of Management Effectiveness**

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

#### **Induction and Continuing Professional Development**

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

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

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

#### **Internal Control**

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

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

#### **Strategy and Financial Reporting**

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

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

**The Kensington Friendly Collecting Society Limited**

**Corporate Governance Report**  
**for the Year Ended 31 December 2016 (continued)**

**Internal Control continued...**

*Organisational Structure and reporting Procedures*

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

*Control environment*

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

*Risk Assessment*

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

**Reviewing and Monitoring the Effectiveness of Internal Controls**

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

**Committee of Management sub Committees**

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

**Audit & Risk Committee**

During 2016 the Audit & Risk Committee met three times and comprised the following Members:

Jamie Brown - Chairperson  
David Kirk – Retired June 2016  
Peter McTiernan  
Brian Douglass  
Debra Barker  
Gillian Dobson

The Annotated Corporate Governance Code for Mutual Insurers requires the Committee of Management to be satisfied that at least one member of the Committee of Management has recent and relevant experience. The Committee of Management has considered this requirement and concludes that it believes that this requirement is met and that the academic, business and financial experience of the members as a whole enables the committee to fulfil its terms of reference in a robust and independent manner. The committee as a whole has the opportunity to meet privately with the internal auditor and external auditor at any time. The internal auditor attended every meeting during 2016.

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

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

**The Kensington Friendly Collecting Society Limited**

**Corporate Governance Report**  
**for the Year Ended 31 December 2016 (continued)**

**Activities in 2016**

The Audit & Risk Committee met three times in 2016 and discharged its responsibilities by:

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

**Remuneration Committee**

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

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

**Nomination Committee**

This comprises the following:-

Mark Brooks - Chairperson  
Peter Hawkins  
David Kirk  
Philip Carey  
Jamie Brown

Its terms of reference are available on the Society's website. It met on one occasion during 2016. One new board member was appointed during 2016. The Society did not use an external search consultancy in the recruitment of this new board member, preferring to source candidates via alternative and more cost effective methods such as referral by existing board members, professional advisers and business contacts.

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

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



**The Kensington Friendly Collecting Society Limited**

**Corporate Governance Report**  
**for the Year Ended 31 December 2016 (continued)**

**Finance & Investment Committee**

This comprises the following:-

Peter Hawkins – Chairperson  
David McTiernan – Retired June 2016  
Mark Brooks  
Philip Carey  
Gary Ferguson  
Brian Douglass  
Christine Scott

The committee met on three occasions during 2016. Its terms of reference are available on the Society's website. During 2016 the committee reviewed the Society's investment strategy. Its main activity is to ensure that the executive is performing to budget and target and monitor the investment performance of the Society's brokers.

## **The Kensington Friendly Collecting Society Limited**

### **Report of the Committee of Management for the Year Ended 31 December 2016**

The Committee of Management presents its annual report and audited financial statements for the Society for the year ended 31 December 2016. This report should be read in conjunction with the Strategic Report set out on pages 5 and 6.

#### **Members of the Committee of Management**

The Members of the Committee of Management are shown on page 1, and brief biographies on pages 7 and 8. All Members of the Committee of Management will be standing for election/re-election at the forthcoming annual general meeting.

#### **Business objectives and activities**

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

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

#### **Business Review**

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

The overall financial position of the Society as at 31 December 2016 is considered satisfactory bearing in mind the local economic climate.

#### **Statement of Solvency**

Lisa Staker of Steve Dixon Associates LLP performs the function of Appropriate Actuary. Fees paid to Steve Dixon Associates LLP are disclosed in note 10 to the financial statements.

As at 31 December 2016, the Society had in the opinion of the Appropriate Actuary the required solvency margins prescribed in section 48(2) Friendly Societies Act 1992.

#### **Going Concern Basis**

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

#### **Charitable and Political donations**

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

#### **Equal Opportunities**

The Society operates a policy on Equality and Diversity which states "The Society is committed to a policy of equal opportunities for all and shall adhere to such a policy at all times.

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

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

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

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

**The Kensington Friendly Collecting Society Limited**

**Report of the Committee of Management  
for the Year Ended 31 December 2016 (continued)**

**Disclosure of Information to Auditors**

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

**Statement of Committee of Management Responsibilities**

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

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

The Committee of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and to enable it to ensure that the financial statements comply with the Financial Services & Markets Act 2000, Friendly Societies Act 1992 and the regulations made under it. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

In addition, the Committee of Management considers that the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for members to assess the Society's performance, business model and strategy.

**Auditors**

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

In accordance with Section 72 of the Friendly Societies Act 1992, a resolution is to 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: 11 May 2017

## **The Kensington Friendly Collecting Society Limited**

### **Remuneration Report** **for the Year Ended 31 December 2016**

This report is submitted in respect of the year ended 31 December 2016. A vote to approve the report will be put to the 2017 Annual General Meeting.

#### **Remuneration & Assessment Committee**

The remuneration policy of the Society is the responsibility of the Remuneration Committee. This committee meets at least annually and is chaired by Mark Brooks, 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 carries out some external appointments. Details of these are available on page 10.

The Executive members have continuing service contracts with notice periods set at less than 12 months.

#### **Non-Executive Members**

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

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

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

#### **Staff Salaries**

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

**The Kensington Friendly Collecting Society Limited**

**Remuneration Report**  
**for the Year Ended 31 December 2016 (continued)**

Fees, salaries and benefits of the Committee of Management in 2016 amounted to:

	<b>Fees</b>	<b>Salary</b>	<b>Benefits</b>	<b>Pension</b>	<b>Total</b>	<b>2015</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Peter Hawkins	2,187	-	-	-	<b>2,187</b>	2,240
David McTiernan (retired June 2016)	505	-	-	-	<b>505</b>	1,672
David Kirk (retired June 2016)	720	-	-	-	<b>720</b>	1,488
Mark Brooks	1,801	-	-	-	<b>1,801</b>	2,021
Peter McTiernan	1,361	-	-	-	<b>1,361</b>	1,352
Philip Carey	-	21,652	-	4,747	<b>26,399</b>	31,869
Jamie Brown	1,834	-	-	-	<b>1,834</b>	1,592
Christine Scott	1,672	-	-	-	<b>1,672</b>	1,432
Gary Ferguson	1,441	-	-	-	<b>1,441</b>	1,352
Brian Douglass	-	30,325	-	86	<b>30,411</b>	31,975
Debra Barker	1,441	-	-	-	<b>1,441</b>	1,662
Gillian Dobson	1,441	-	-	-	<b>1,441</b>	1,662
Andrew Douthwaite (appointed November 2016)	268	-	-	-	<b>268</b>	-
	<u>14,671</u>	<u>51,977</u>	<u>-</u>	<u>4,833</u>	<u><b>71,481</b></u>	<u>80,317</u>

Mark Brooks  
Chairman of the Remuneration Committee

Date: 11 May 2017

## **Kensington Friendly Collecting Society Limited**

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

We have audited the financial statements of the Kensington Friendly Collecting Society Limited for the year ended 31 December 2016 which comprise the Income and Expenditure Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

#### **Respective responsibilities of the Committee of Management and auditor**

As explained more fully in the Committee of Management's Responsibilities Statement set out on page 17, the Committee of Management is responsible for the preparation of the Society's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

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

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2016 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standards 102 and 103 'The Financial Reporting Standards applicable in the UK and Republic of Ireland': and
- have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

#### **Audit commentary**

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

#### **Our assessment of risks of material misstatement**

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

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

## **Kensington Friendly Collecting Society Limited**

### **Independent Auditors' Report to the Members of the Kensington Friendly Collecting Society Limited (continued)**

#### **Our application of materiality**

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

We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

When establishing our overall audit strategy, we determined an overall level of uncorrected misstatement that we judged would be material for the financial statements as a whole. We determined planning materiality for the Society to be £39,000 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 £35,100.

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 £21,000 specifically for the Income and Expenditure Account. Our objective in adopting this approach is to ensure that total detected and undetected audit difference that would affect the Income and Expenditure Account do not exceed this performance materiality level.

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

#### **An overview of the scope of our audit**

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

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

- we engaged the services of suitably qualified and experienced 'Independent Actuary' to review and challenge the methodology, assumptions and calculations of the Appropriate Actuary's long term business provision liabilities. We also tested the integrity of the actuarial data extracted from the Society's policy data;
- we carried out substantive testing on the Society's premium income relating to existing policies, new policies written in the year and surrendered policies, as well as analytical and cut-off procedures to ensure revenue recognition policies complied with the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice);
- we carried out analytical procedures and journal entry testing in order to identify and test the risk of error or fraud arising from management override control; and
- the work of the Independent Actuary also allows us to consider the appropriateness of the Statement of Solvency on page 16.

#### **Opinion on other matters prescribed by the Friendly Societies Act 1992**

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

**Kensington Friendly Collecting Society Limited**

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

**Matters on which we are required to report by exception**

**-Friendly Societies Act 1992:**

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

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

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

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

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

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

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

**-Corporate Governance Statement:**

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

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

Date: 11 May 2017



**Kensington Friendly Collecting Society Limited**

**Income and Expenditure Account**  
**for the Year Ended 31 December 2016**

**Technical Account - long term business**

	Note	2016 £	2015 £
Earned premiums	5	833,620	786,396
Investment income	6	1,245,017	411,705
Other income		6,802	2,155
Unrealised losses on investments	6	(302,525)	(320,023)
		<u>1,782,914</u>	<u>880,233</u>
Claims incurred	7	751,246	774,065
Changes in other technical provisions	13	775,226	(311,706)
<b>Net operating expenses</b>			
Acquisition expenses	8	88,597	94,741
Administrative costs	8	120,998	115,818
Investment expenses and charges	8	67,978	66,334
Transfer (from)/to the fund for future appropriations	13	(21,131)	140,981
		<u>1,782,914</u>	<u>880,233</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.

**Kensington Friendly Collecting Society Limited**  
**Balance Sheet as at 31 December 2016**

	Note	2016 £	2015 £
<b>Assets</b>			
<b>Investments</b>			
	11		
Land and buildings		200,000	200,000
Other financial investments		7,472,194	6,756,783
<b>Debtors</b>			
Debtors arising on direct insurance operations		32,198	20,450
Taxation recoverable		2,594	2,106
<b>Other assets</b>			
Tangible assets	12	7,319	8,883
Cash at bank and in hand		43,203	37,295
<b>Prepayments and accrued income</b>			
Accrued income		43,575	35,366
Prepayments		9,202	5,687
		<u>7,810,285</u>	<u>7,066,570</u>
<b>Liabilities</b>			
<b>Fund for future appropriations</b>			
	13	1,450,421	1,471,552
<b>Technical provisions</b>			
Long term business provision	13	6,274,961	5,499,735
<b>Creditors</b>			
Taxation and social security		4,235	3,838
Other creditors		80,668	91,445
		<u>7,810,285</u>	<u>7,066,570</u>

The financial statements were approved and authorised for issue by the Committee of Management on 11 May 2017 and were signed on their behalf by:-

Philip Carey

Brian Douglass

**Kensington Friendly Collecting Society Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**1 General Information and basis of preparation**

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

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

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

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

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

**2 Accounting Policies**

**Premium income**

Earned premiums are accounted for as they fall due.

**Investment income and expense**

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

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

**Unrealised gains and losses**

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

**Claims**

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

**Acquisition costs**

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

**Kensington Friendly Collecting Society Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**2 Accounting Policies (continued)**

**Taxation**

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

**Pension costs**

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

**Investments**

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

Financial assets at fair value include listed investments. Fair value is based upon mid-market value at the year end.

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

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

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

**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
---------------------	--

**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.

**Kensington Friendly Collecting Society Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**2 Accounting Policies (continued)**

**Critical accounting estimates and judgements**

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

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

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

**(a) 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, morbidity and longevity 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 an appropriate valuation techniques. The investments are all held on a recognised stock market and are valued at the bid quoted market price. The freehold property was valued by a chartered surveyor in February 2014 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.

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.

**Kensington Friendly Collecting Society Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**3 Capital Management (continued)**

*Policies and objectives*

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:

	2016		2015	
	£	£	£	£
Fund for future appropriations	1,450,421		1,471,552	
Less: Inadmissible assets	(13,319)		(14,883)	
Resilience reserve	(82,933)		(247,792)	
Expense reserve	(293,045)		(285,987)	
	<u>1061,124</u>		<u>922,890</u>	
Capital available to meet regulatory capital requirements	<u>1,061,124</u>		<u>922,890</u>	
Regulatory capital requirements		<u>294,390</u>		<u>270,947</u>
<b>Capital in excess of regulatory capital requirements</b>	<u>766,734</u>		<u>651,943</u>	

The movement in capital resources is as follows:

	2016	2015
	£000s	£000s
Capital available as at 1 January	923	767
Change in assumptions in the valuation basis	(724)	243
Economic factors – investments	748	(112)
Economic factors – expenses	26	18
Surplus/(Cost) on new business	1	(18)
Surplus on surrenders	20	34
Surplus on remaining demographic items	165	72
Cost of reversionary bonus above margins set aside for bonus	(50)	(38)
Interim and terminal bonuses paid on maturities	(48)	(43)
<b>Capital available as at 31 December</b>	<u>1,061</u>	<u>923</u>

The assets available for the Required Minimum Margin are 360% of the RMM (341% last year).

**Kensington Friendly Collecting Society Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**3 Capital management (continued)**

*Measurement and monitoring of capital*

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

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

*Available capital – Long-term insurance contracts*

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

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

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

Market conditions

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

Demographic assumptions

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

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

	<b>2016</b>	2015
	£	£
Whole of life	<b>3,117,926</b>	2,706,781
Endowment	<b>1,395,367</b>	1,303,620
Quinquennial	<b>1,761,668</b>	1,489,334
<b>Total</b>	<b>6,274,961</b>	5,499,735

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

	<b>Change in liabilities (£000s)</b>
Decrease in Valuation Interest by 0.5%	<b>719</b>
Increase in expenses allowance by 5%	<b>336</b>
Increase in mortality rates by 15%	<b>180</b>

**Kensington Friendly Collecting Society Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**4 Risk management and control**

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

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

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

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

The principal methods involve:

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

- b) Nature and extent of risks arising from insurance contracts

**Insurance risk**

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

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

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

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

The following risk factors are components of insurance risk:

*Mortality risk*

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

*Lapse risk*

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



**Kensington Friendly Collecting Society Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

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

*Expense risk*

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

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

**Credit risk**

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

Asset portfolios are monitored and reviewed regularly by the board.

**i) Maximum exposure to credit risk**

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

	<b>2016</b>	2015
<b>Assets</b>	<b>£</b>	<b>£</b>
Bonds	<b>7,138,564</b>	5,406,236
Equities	<b>333,630</b>	1,350,547
Property	<b>200,000</b>	200,000
Deposits	<b>43,204</b>	37,295
	<hr/>	<hr/>
<b>Total</b>	<b>7,715,398</b>	6,994,078
	<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.

	<b>2016</b>
	<b>£</b>
UK Government Bonds	<b>6,880,117</b>
Corporate Bonds	<b>258,447</b>
	<hr/>
<b>Total</b>	<b>7,138,564</b>
	<hr/>

**Kensington Friendly Collecting Society Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

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

Equities

Investments in equities are limited.

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

	United Kingdom (£)	Europe (€)	Overseas (£)
Collectives	301,032	3,095	29,503
<b>Total</b>	<b>301,032</b>	<b>3,095</b>	<b>29,503</b>

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 nor to the objectives, policies and processes for managing market risk.

Below are the key factors that underlie market risk:

**i) Currency risk**

The Society denominates all of its insurance contracts in Sterling.

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

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

**Kensington Friendly Collecting Society Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

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

US Dollar & Euro Collectives	Market value (£) <b>32,598</b>
<b>Total</b>	<b>32,598</b>

**ii) Interest rate risk**

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

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

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

**iii) Equity market risk**

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

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

**Summary of market risk sensitivities**

	Change in surplus assets (£K)
Fixed interest yields fall by 1%	224
Equity values fall by 10%	(33)
Fixed interest yields rise by 1%	(359)
Equity values rise by 10%	33

**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 £200,000.

**5 Earned premiums**

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

**6 Investment income**

	2016	2015
	£	£
Income from land and buildings	3,988	3,602
Income from listed investments	199,093	208,278
Gains on investments realised	1,041,930	199,817
Bank interest	6	8
	<b>1,245,017</b>	<b>411,705</b>
	2016	2015
	£	£
Unrealised losses - investments at fair value	<b>(302,525)</b>	<b>(320,023)</b>

**Kensington Friendly Collecting Society Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

<b>7</b>	<b>Claims incurred</b>	<b>2016</b>	<b>2015</b>
		<b>£</b>	<b>£</b>
	Deaths	<b>301,562</b>	227,976
	Maturities	<b>177,197</b>	192,354
	Surrenders	<b>144,510</b>	213,809
	Bonuses	<b>55,365</b>	69,482
		<hr/>	<hr/>
		<b>678,634</b>	703,621
	Claims processing expenses	<b>72,612</b>	70,444
		<hr/>	<hr/>
		<b>751,246</b>	774,065
		<hr/> <hr/>	<hr/> <hr/>

<b>8</b>	<b>Expenses</b>	<b>2016</b>	<b>2015</b>
		<b>£</b>	<b>£</b>
	Acquisition expenses	<b>88,597</b>	94,741
	Administration	<b>120,998</b>	115,818
	Investment expenses and charges	<b>67,978</b>	66,334
	Claims processing expenses	<b>72,612</b>	70,444
		<hr/>	<hr/>
		<b>350,185</b>	347,337
		<hr/> <hr/>	<hr/> <hr/>

		<b>2016</b>	<b>2015</b>
		<b>£</b>	<b>£</b>
	Committee and staff remuneration (see below)	<b>221,381</b>	235,126
	Audit	<b>19,540</b>	17,937
	Actuary	<b>47,390</b>	33,411
	Stockbroker	<b>21,442</b>	21,599
	Depreciation	<b>3,499</b>	4,857
	Other overheads	<b>33,528</b>	30,631
	Registration fees and subscriptions	<b>3,405</b>	3,776
		<hr/>	<hr/>
		<b>350,185</b>	347,337
		<hr/> <hr/>	<hr/> <hr/>

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

		<b>2016</b>	<b>2015</b>
	Committee	<b>12</b>	12
	Administration	<b>4</b>	4
	Sales	<b>15</b>	15
		<hr/>	<hr/>
		<b>31</b>	31
		<hr/> <hr/>	<hr/> <hr/>

**Kensington Friendly Collecting Society Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**8 Expenses (continued)**

The aggregate payroll costs of these persons were as follows:

	<b>2016</b>	2015
	£	£
Committee Members	<b>66,648</b>	75,661
Staff wages	<b>142,161</b>	145,915
Social security costs	<b>7,610</b>	9,109
Pension contributions	<b>4,962</b>	4,441
	<u><b>221,381</b></u>	<u>235,126</u>

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

	<b>2016</b>	2015
£1 - £5,000	<b>10</b>	10
£20,001 - £25,000	<b>1</b>	-
£25,001 - £30,000	<b>-</b>	1
£30,001 - £35,000	<b>1</b>	1
	<u><b>12</b></u>	<u>12</u>

The Chairman received £2,187 (2015: £2,240) and the highest paid member of the committee received £30,325 (2015: £31,975).

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

	<b>2016</b>	2015
Money purchase schemes	<b>2</b>	1

**9 Audit fees**

	<b>2016</b>	2015
	£	£
Audit	<b>17,500</b>	18,000
Other	<b>360</b>	-
Under/(Over) provision previous year	<b>1,680</b>	(63)
	<u><b>19,540</b></u>	<u>17,937</u>

**10 Actuaries fees**

Lisa Staker of Steve Dixon Associates LLP performs the functions of Appropriate Actuary.

The Society has requested her to furnish it with particulars required under Section 77 of the Friendly Societies Act 1992. Mrs Staker 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 Steve Dixon Associates LLP, which are shown as follows:-

	<b>2016</b>	2015
	£	£
Valuation work	<b>19,800</b>	21,630
Special work	<b>27,590</b>	11,781
	<u><b>47,390</b></u>	<u>33,411</u>

**Kensington Friendly Collecting Society Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**11 Investments**

**Land and buildings**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
At 31 December – at valuation	<b><u>200,000</u></b>	<b><u>200,000</u></b>

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

On 3 February 2014 the directors obtained an independent valuation of the freehold property prepared by Thomas Stevenson, Chartered Surveyors, at £200,000. The valuation was carried out in accordance with the RICS Valuation Standards. The basis of valuation was existing use value, for those parts of the property occupied by the Society, and market value for the remainder. The property is freehold; it is partially let to third parties, income from which is reflected in investment income. The historical cost of land and buildings at 31 December 2016 was £336,610 (2015 - £336,610).

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

**Other financial investments**

	<b>2016</b>		<b>2015</b>	
	<b>Market Value</b>	<b>Cost</b>	<b>Market Value</b>	<b>Cost</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
British Funds	<b>6,880,118</b>	<b>6,726,262</b>	5,010,012	4,539,846
Foreign Bonds	-	-	195,585	208,520
Fixed Interest	<b>258,447</b>	<b>251,275</b>	200,639	204,967
Basic materials and basic resources	-	-	14,547	23,071
Oil and Gas Producers	-	-	25,536	30,852
Industrials	-	-	14,550	15,061
Food and beverages	-	-	23,213	23,304
Household Goods	-	-	94,460	86,995
Healthcare	-	-	38,717	41,469
Media	-	-	46,575	40,309
Travel and leisure	-	-	13,325	12,181
Telecommunications	-	-	17,949	16,365
Utilities	-	-	30,429	28,226
Banks	-	-	36,823	42,787
Insurance	-	-	40,876	36,208
Financial services	-	-	21,739	20,518
Diversified Collective Investments	<b>119,468</b>	<b>106,861</b>	133,268	119,422
North America	<b>78,438</b>	<b>63,484</b>	278,451	269,938
Europe	<b>3,095</b>	<b>3,089</b>	127,514	126,354
Japan	-	-	45,054	46,303
Asia Pacific	<b>14,874</b>	<b>14,955</b>	45,424	49,970
Other overseas	<b>66,531</b>	<b>65,329</b>	211,306	199,532
Property – United Kingdom	<b>51,223</b>	<b>48,303</b>	90,791	79,424
	<b><u>7,472,194</u></b>	<b><u>7,279,558</u></b>	<b><u>6,756,783</u></b>	<b><u>6,261,622</u></b>

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 2016**

**12 Tangible assets**

	<b>Fixtures and fittings</b>	<b>Total</b>
	£	£
<b>Cost</b>		
At 1 January 2016	58,837	58,837
Additions	1,935	1,935
	<hr/>	<hr/>
<b>At 31 December 2016</b>	<b>60,772</b>	<b>60,772</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Depreciation</b>		
At 1 January 2016	49,954	49,954
Charge for the year	3,499	3,499
	<hr/>	<hr/>
<b>At 31 December 2016</b>	<b>53,453</b>	<b>53,453</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Net Book Value at 31 December 2016</b>	<b>7,319</b>	<b>7,319</b>
	<hr/> <hr/>	<hr/> <hr/>
Net Book Value at 31 December 2015	8,883	8,883
	<hr/> <hr/>	<hr/> <hr/>

**13 Funds and technical provisions**

	<b>Long term business provision</b>	<b>Fund for future appropriations</b>
	£	£
At 1 January 2016	5,499,735	1,471,552
Transfer to/(from) the technical account	775,226	(21,131)
	<hr/>	<hr/>
<b>At 31 December 2016</b>	<b>6,274,961</b>	<b>1,450,421</b>
	<hr/> <hr/>	<hr/> <hr/>

**14 Long-term business provision**

**a) Analysis of insurance contract liabilities**

	<b>2016</b>	<b>2015</b>
	£	£
Participating insurance contract liabilities	5,958,805	5,223,104
Non-participating insurance contract liabilities	316,156	276,631
	<hr/>	<hr/>
<b>Total insurance contract liabilities</b>	<b>6,274,961</b>	<b>5,499,735</b>
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>2016</b>	<b>2015</b>
	£	£
Balance at 1 January	5,499,735	5,811,441
Valuation interest rate change	724,384	(243,288)
Policy movements	(12,311)	(120,690)
Cost of bonus	63,153	52,272
	<hr/>	<hr/>
<b>Balance at 31 December</b>	<b>6,274,961</b>	<b>5,499,735</b>
	<hr/> <hr/>	<hr/> <hr/>

**Kensington Friendly Collecting Society Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**15 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 by an appropriate factor based on the perceived risk of each individual bond. 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 1.67% after allowing for the 2.5% risk adjustment.

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

The resultant interest rates were:

	<b>Interest rate</b>
With profit premium paying	1.06% (2015 : 1.75%)
Non-profit paid up	1.31% (2015 : 2.00%)

***Mortality assumptions***

A mortality investigation was carried out for 2016 on the Society's policies. The mortality investigation 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 3.3%.

The closed fund expenses were not covered by the expense margins above and a reserve of £156,000 made.

There is also an expense overrun reserve of £137,000.

***Persistency – lapses and surrenders***

No allowance for lapses and surrenders has been included.

**16 Capital commitment**

At 31 December 2016 the Society had a capital commitment totalling £10,890 (2015: Nil).



**Kensington Friendly Collecting Society Limited**  
**Notes to the Financial Statements for the Year Ended 31 December 2016**

**17 Transactions with related parties**

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

The Society leases office space to Careys at an annual rental of £6,000 (2015: £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 £21,841 (2015: £23,179) and the Society charged Careys £19,796 (2015: £21,137) in respect of these common overheads. This sharing of costs enables economies of scale to be realised. At the year end the sum of £Nil (2015: £Nil) was due from the Society to Careys and Careys owed the Society £1,040 (2015: £756).

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

Minster Cleaning Services, a company under the control of Peter Hawkins, provided cleaning services to the Society during the year totalling £1,167 (2015: £1,101) and Endeavour Partnership LLP, a legal firm in which Jamie Brown is a partner, provided legal services totalling £180 (2015: £1,830). No balances were outstanding at the year end. These transactions were undertaken on normal commercial terms.

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

	2016		2015	
	Number of persons £	Sum assured £	Number of persons £	Sum assured £
Life assurance and endowment policies:				
Premiums paid	4	3,739	5	3,986
Total sum assured at 31 December	4	61,725	5	61,917

**18 Pension costs**

During the year the Society paid £4,962 (2015: £4,441) into defined contribution pension schemes for the benefit of certain employees. The assets of the scheme are held separately to the assets of the Society in independently administered funds. At 31 December 2016 there were £158 outstanding contributions (2015: £Nil).

**19 Financial instruments**

The carrying amounts of the financial instruments are as follows:

	2016 £	2015 £
<b>Financial assets</b>		
Measured at fair value through income or expenditure		
- Fixed asset listed investments ( note 11)	7,472,194	6,756,783
Debt instruments measured at undiscounted amounts receivable		
- Debtors arising on direct insurance operations	32,198	20,450