

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

**117<sup>th</sup> Annual Report**  
**of the Committee of Management**  
**for the Year Ended 31 December 2021**

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

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

**Committee of Management and Independent Advisors**  
**for the Year Ended 31 December 2021**

<b>Registered Office</b>	1 Kensington Road Middlesbrough TS5 6AL		
<b><u>Committee of Management</u></b>	<b>Non-Executive Directors</b>	<b>First Election</b>	<b>Last Re-election</b>
Chair	Mark Brooks	June 2005	June 2021
	Jamie Brown	June 2011	June 2021
	Christine Scott	June 2011	June 2021
Senior Independent Director	Gary Ferguson	June 2012	June 2021
Vice Chair	Debra Barker	June 2015	June 2021
	Gillian Dobson	June 2015	June 2021
	Andrew Douthwaite	June 2017	June 2021
	Dominic Gardner	June 2019	June 2021
	Mark Dobing	Seeking election at 2022 AGM	
	Liam Moloney	Seeking election at 2022 AGM	
	<b>Executive Directors</b>		
	Philip Carey	June 2006	June 2021
	Brian Douglass	June 2012	June 2021
<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>	Sally Butters OAC plc 141-142 Fenchurch Street London EC3M 6BL		
<b>External Auditors</b>	Anderson Barrowcliff LLP 3 Kingfisher Court Bowesfield Park Stockton on Tees TS18 3EX		

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

**Committee of Management and Independent Advisors**  
**for the Year Ended 31 December 2021**

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

**Solicitors**

Endeavour Partnership LLP  
Tobias House  
St Marks Court  
Teesdale Business Park  
Thornaby on Tees  
TS17 6QW

**Investment Managers**

LGT Vestra LLP  
14 Cornhill  
London  
EC3V 3NR

**Bankers**

Virgin Money  
7 Linthorpe Road  
Middlesbrough  
TS1 1RF

**Compliance Consultants**

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

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

**Enquiries**

Enquiries about the Society generally or about an individual's entitlement to benefit should be addressed to the Chief Executive at the above address or at [philcarey@teesmutual.co.uk](mailto:philcarey@teesmutual.co.uk)

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

**Chair's Report for the Year Ended 31 December 2021**

Welcome to Tees Mutual's Annual Report and Accounts for 2021.

I would like to thank members for their continued support of the Society, and all the agents and staff for working through the challenges brought about by the pandemic.

In some respects, 2021 was a more difficult year than 2020. Sales of new business were hampered by government restrictions during the first five months of the year, as well as by the changes in the distribution model that the Chief Executive discusses. I appreciate the difficulties that the lack of face-to-face contact has had on the Society's sales model, but at the same time, I am encouraged by the willingness of agents to adapt to the irreversible changes heralded by the pandemic.

During 2021 we began rebalancing the Society's investment portfolio and invested £715,000 into equities, which had a positive return of 12.05%. The fixed interest portfolio, however, declined by 6.94%, and the overall investment return was -5.99%. Overall, solvency declined by 7% but free assets remained the same as in 2020, mainly because the Society's liabilities have also reduced. As a result of this, the board have decided not to declare a reversionary bonus for 2021 and have focused instead on terminal bonuses to reward longstanding members.

The profitability of products has been a consistent topic during board meetings in 2021. I am grateful to the Society's actuary for her assistance in helping the board understand the challenges in relation to fairness to members and the longer-term commercial sustainability of the Society.

Tees Mutual's cost base remained in line with the annual budget and slightly lower than in 2020. I would like to thank the Company Secretary for his excellent stewardship of the Society's finances.

As part of our plan to refresh and replenish the board, I am delighted that Liam Moloney and Mark Dobing have agreed to join us and are seeking election at the AGM. I am sure they will be excellent representatives of the members.

Finally, Christine Scott is retiring from the board, and I would like to thank her for her significant contribution as a director over the last ten years. Christine's eye for detail and pragmatic approach to resolving issues has been admired and respected by all her colleagues at Tees Mutual. I am grateful that Christine has agreed to remain involved in sense-checking the annual accounts and the production of the annual report.

Mark Brooks

Date: 12 May 2022

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

**Chief Executive's Report for the Year Ended 31 December 2021**

Tees Mutual continues to provide an outstanding, relationship-managed service to its members. Throughout 2021, our staff and agents ensured that claims were paid out efficiently and, in most cases, within 72 hours of receipt. The Society's agents maintained regular contact with members, ensuring that queries about the value of their products and any requirements for further life or savings cover were dealt with promptly and effectively. The board are extremely proud of the service that staff and agents deliver to the members, especially when helping them with payment difficulties and underlying issues of vulnerability.

There have, however, been fundamental changes to the Society's operation and distribution processes. Before March 2020, 15% of premiums were collected electronically, whereas today that has risen to over 60%. It is now evident that even after the lifting of restrictions on social contact, most members prefer this method of payment. This has had positive impacts, such as a reduction in arrears, but it has also meant that regular face-to-face contact with members has declined. To that extent, agents have remodelled their collecting routines and adopted a structured engagement routine where they maintain contact with members who they do not see every week, using telephone and messenger services. Additionally, members are reassured that an agent will make a face-to-face visit if requested to do so.

With the assistance of the Society's actuary, the board have discussed at length the profitability and fairness of the Society's products. As a result of this process, and on the recommendation of the Product Oversight and Governance Committee, the board withdrew the quinquennial product on December 31 2021. The board will undertake further reviews in 2022 and are also mindful of the New Consumer Duty requirements that will become effective in April 2023.

As the Chair refers to in his report, this has been a difficult year regarding sales of new business and investment returns. These issues will persist into 2022, especially with increasing gilt yields and inflation. The impact of rising utility and food prices will have a profound impact on the Society's members, and this will undoubtedly lead to challenges around retention of members and levels of new business. However, as I stated above, the relationship-managed service to our members means the Society will be able to exercise forbearance and understanding to all members impacted by these events.

Longer-term, the viability of the Society to provide access to basic life and savings products will be determined by the future of regulation. The Association of Financial Mutuals (AFM) has discussed with HM Treasury the possibility of repealing some of the restrictive legislation regarding the services and activities that friendly societies can offer to their members. If the work of the AFM were to be successful, Tees Mutual would welcome opportunities to provide a holistic financial service to its members, which would include access to credit and a range of other services including debt and benefit advice. The ability to do this would provide the Society with other income streams and be a natural extension of its role as a trusted local financial services institution.

Finally, I would like to thank Paul Allison, who retired in December 2021. Paul will be missed by both the members and his former colleagues. I am particularly grateful for all his support over the last 20 years.

Phil Carey

Date: 12 May 2022

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

**Strategic Report of the Committee of Management**  
**for the Year Ended 31 December 2021**

The Committee of Management of Tees Mutual presents its Strategic Report for the Society for the year ended 31 December 2021.

### **Business Model**

The Society is an incorporated, non-directive friendly society that was established in 1904. The Society continues to provide its members with assurance-based life and savings products. The Committee of Management believes there remains a market for these products with a home collection service. The home collection service enables members to be flexible in the frequency and timing of their premium payments. This is particularly suited to the majority of the Society's members who are either in insecure employment, on zero-hour contracts or in receipt of welfare benefits. However, the Committee of Management also recognises that customer behaviour is changing, with the pandemic hastening the move to electronic communication and payments, and is continuing to make amendments and to look for opportunities to develop new distribution channels.

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

- To treat the members of the Society fairly and equitably.
- To ensure members get the outcomes they expect.
- To provide a good level of customer service.
- 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 email (info @teesmutual.co.uk).

### **Business Strategy**

The optimism of a return to business as usual during 2021 did not materialise and as set out in the Report of the Chief Executive (page 4) covid-19 restrictions continued to affect most people in some way. The Society was no different and although at times restrictions were relaxed the confidence of members to accept home visits is taking longer to return to normal. The reduction in face to face contact impacted upon sales of new policies, however, temporary changes to the business model introduced enabled the impact to be mitigated.

Despite the social distancing restrictions imposed by Government and some office staff working remotely, the Society was able to maintain a high level of service to members with the majority of claims paid out within 72 hours of receipt through the increased use of electronic communication.

Towards the end of the period the development of the Cloud based Customer Relationship Management System (CRM) recommenced with the experiences of the last two years aiding the process. The Committee of Management is confident that the system can be launched in 2022 and believe that this system will lead to more efficient communication between the agents, members and office staff and over time is anticipating that cost savings will be generated.

### **Business Environment**

The business environment in the Tees Valley area has been challenging for a number of years due to high levels of unemployment and increasing numbers being impacted by the Government's welfare reforms with the roll out of Universal Credit. These issues have been compounded by the impact of the pandemic with media reports suggesting Middlesbrough to be one of the most badly affected towns.

These issues are expected to continue into 2022 as inflationary pressures affecting food and utility prices will place extra strain on the disposable income of the Society membership.

**The Kensington Friendly Collecting Society Limited**  
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**Strategic Report of the Committee of Management**  
**for the Year Ended 31 December 2021 (continued)**

## **Results and Performance**

As set out earlier the impact of the pandemic continued to have a big effect upon the financial results of the Society for 2021.

Confidence returned to the equity markets during the year with the FTSE100 index rising by 14.3% during the year. This caused Fixed Interest Gilt yields to rise and the Society saw a reduction in capital values of its fixed interest holdings. By working closely with the Society advisors £715,000 was re-invested into the equity market and by maintaining a closely matched duration policy liabilities fell by about the same amount as the portfolio.

The overall return on the portfolio for 2021 was -5.99% (2020: +6.4%). At the year-end the portfolio consisted of 89% (2020: 96%) fixed interest and 11% (2020: 4%) equity. The Committee of Management will work with the Society advisors during 2022 to further diversify the portfolio when the opportunity arises.

As discussed above the covid-19 restrictions continued to impact upon the ability of the Society to write new business with annualised new business totalling £69,918 (2020: £81,139) being achieved. The emergence of the omicron variant in November/December, a traditional strong sales quarter, contributed significantly to the reduction in sales. In view of the restrictions the Committee of Management considers that the overall level of new business for the year is satisfactory.

The Committee of Management also continues to closely monitor the cost base of the Society and was able to maintain overall costs within the agreed budget.

The Society suspended reversionary bonuses last year due to the pandemic and other market and economic uncertainties. The Committee of Management considers it prudent not to declare a reversionary bonus again this year whilst also continuing with the strategy of diversifying the portfolio and of rebalancing terminal bonuses so that they remain sustainable and fair to all members. It is the intention of the Committee of Management to re-instate reversionary bonuses when conditions are more favourable.

Based upon the results for the year the Fund for Future Appropriations reduced by £51,289 (2020: £208,976).

## **Corporate Social Responsibility**

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

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



**The Kensington Friendly Collecting Society Limited**  
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**Strategic Report of the Committee of Management**  
**for the Year Ended 31 December 2021 (continued)**

The investment managers have developed a proprietary sustainability rating matrix and the Committee of Management continues to consider how this will fit into the risk management considerations in developing the future investment strategy.

At the year-end the Society's portfolio continued to be rated in the highest (leader) category. The ratings are taken into consideration when investment decisions are being considered.

The Society is also making greater use of remote working and video-conferencing to avoid unnecessary travel costs and to reduce the Society's carbon footprint.

The Society is aware of the importance of the local community and through the use of its website and social media channels regularly shares blogs and articles that will assist members to obtain financial assistance/advice. Since the year-end the Society has started discussions with Middlesbrough Borough Council to assist with sign-posting members to the potential sources of financial assistance that may be available to them to assist with the increasing costs of energy and food.

### **Future Developments**

The Society is continuing to increase awareness of the Society locally and to make alternative distribution channels available for its products. The trading name of Tees Mutual is an important part of the marketing campaign to develop and promote the Society both locally and on-line via the website and social media marketing. As part of this strategy, the Society aims to assist, in a small way, projects undertaken by small local community groups and charities through the Tees Mutual Community fund. The longer-term aim is to increase membership and income of the Society for the benefit of all stakeholders.

The Committee of Management is taking an interest in discussions between the Association of Financial Mutuals (AFM) and HM Treasury regarding updating of friendly society legislation. Any changes may be beneficial and enable the Society to offer a wider range of financial services 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 risk parameters 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 AFM and external compliance consultants to ensure that the Society is ready for the introduction of new legislation. The costs of the Society are constantly under review and closely monitored against agreed budgets.

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

**Strategic Report of the Committee of Management**  
**for the Year Ended 31 December 2021 (continued)**

- **Expense risk:** During the valuation of the policy liabilities, various assumptions are made regarding the level of future Society costs, the levels of new business generated and lapse rates. There is therefore a risk that future expenses will exceed these allowances that the levels of new business will not achieve targets and that lapse rates will be higher than anticipated. In order to mitigate these risks, the Society regularly reviews these areas against budgets and is constantly reviewing its procedures with a view to achieving efficiency savings and reducing overall costs.
  
- **Coronavirus:** Covid-19 has been identified as a continuing risk and the primary focus of the Committee of Management is to ensure the safety of its members and employees and to monitor the impact that the pandemic is having on the business, membership and employees. The Society has adapted well to the operational challenges of covid-19 with the introduction of remote working and increased electronic communication. The on-going impact on the economy is uncertain and may impact upon the ability of members to afford their premiums and result in an increased level of claims in the short term. The Committee of Management, with the assistance of the Appropriate Actuary, has reviewed the potential effect of an increased level of claims and does not believe that the impact will cast any significant doubt upon the ability of the Society to meet its regulatory capital requirements or to continue as a going concern. The Committee of Management will continue to monitor the impact of the coronavirus on the business as the pandemic continues.
  
- **Climate change:** The Committee of Management recognizes that although the Society is small and operates from one office it must play its part in tackling climate change. At this stage it is not considered that the risks associated with climate change are expected to have a material impact on the Society. The Committee of Management will work with its professional advisors to understand the risks of climate change and will monitor these through the Society's governance structure.

By order of the Board

Brian Douglass  
Company Secretary

Date: 12 May 2022

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

**Committee of Management Biographies**  
**for the Year Ended 31 December 2021**

**Mark Brooks BSC (Hons) - Society Chair**

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

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

**Jamie Brown BSc**

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

After obtaining a degree in Geology from Manchester University, Jamie was employed as a geologist in oil exploration before re-training and qualifying as a solicitor in 2002. He is now a partner in a firm of business lawyers based in the Tees Valley, specialising in commercial property transactions and agricultural law.

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

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

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

**Christine Scott**

Christine was elected on to the Committee of Management in June 2011, serves on the Finance and Investment Committee and the Product Oversight and Governance Committee. Christine was appointed Senior Independent Director in January 2018 serving until September 2021. Christine worked in local government finance for over 20 years, including five years as Deputy Chief Finance Officer responsible for the proper administration of the local authority's financial affairs. During her time in local government she also worked as an accountant, holding corporate and strategic planning roles at senior management level and, developing medium-term financial and service delivery plans.

Christine is due to retire at the 2022 AGM.

**Gary Ferguson**

Gary was elected to the Committee of Management in June 2012 and serves on the Finance & Investment Committee, the Product Oversight and Governance Committee and chairs the Remuneration and 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 predominantly with pensions and investments.

Gary was appointed Senior Independent Director in September 2021.

**The Kensington Friendly Collecting Society Limited**  
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**Committee of Management Biographies**  
**for the Year Ended 31 December 2021 (continued)**

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

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

**Debra Barker CeMap - Society Vice-Chair**

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

Debra brings a vast knowledge and experience of the financial services industry to the Society, having worked in this environment for over 30 years. She spent 21 years with Lloyds Banking Group in several roles, managing risk and compliance along with business development and sales across branches in the North East. She has experience of working within a regulated industry and continues to work within financial services.

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

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

Gillian serves on the Remuneration and Assessment Committee and chairs the Audit and Risk Committee.

**Andrew Douthwaite BSc**

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

**Dominic Gardner BA (Hons) ACA**

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

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

**Mark Dobing**

Mark joined the Committee of Management in the summer of 2021, he currently serves on the Finance and Investment Committee and Remuneration and Assessment Committee.

Following on from achieving a B.Eng (Hons) degree, and a spell working in industry, Mark began his career in financial services in 1993 he later joined Co-operative Bank where he became a fully qualified Independent Financial Adviser in 1998. Following a brief period at Yorkshire Bank, Mark joined the team at Active Chartered Financial Planners based in Stockton on Tees in 2005.

**Liam Moloney**

Liam lives in Middlesbrough with his wife and has two grown up daughters. He works for an international engineering consultancy where he is global operations manager.

Liam joined the Committee of Management in September 2021 and serves on the Audit and Risk Committee and the Remuneration and Assessment Committee.

**The Kensington Friendly Collecting Society Limited**  
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**Corporate Governance Report**  
**for the Year Ended 31 December 2021**

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

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

Throughout the year ended 31 December 2021, to the best of the Committee of Management's knowledge, the Society has complied with the AFM Corporate Governance Code (2019). The Society has applied all the principles set out in the Code; the paragraphs below explain how these principles have been applied by the Society during the year to 31 December 2021.

### **Principle One – Purpose and Leadership**

#### **Purpose**

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

The Society has historically delivered services face to face with a home collection service and the Committee of Management believes that there continues to be a demand for this service. They also recognise that customer behaviour is changing, the pandemic having hastened the move to electronic communication and are adapting systems to service both channels.

#### **Values and Culture**

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

The Committee of Management is aware of its responsibilities to set the tone and the expected behaviours of the Society's employees and endeavours to communicate these values to the workforce. This is carried out through a series of regular management and staff meetings. As the Society's business is located in one main area and it operates out of one office, prior to the pandemic communication between the management team and the employees was achieved through face-to-face meetings. Since the pandemic these meetings have continued but by necessity have been held by telephone or via video conferencing. 2021 saw the gradual re-introduction of face to face meetings.

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

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

The Society monitors performance in this area through the use of a treating customers fairly matrix. During 2021 this matter has been a regular agenda item at Committee of Management meetings.

The Committee of Management monitors the performance of the Society through the use of annual appraisals, the receipt of quarterly financial reports, receipt of reports from the sub-committees and from the internal audit and compliance functions.

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

**Corporate Governance Report**  
**for the Year Ended 31 December 2021 (continued)**

## **Strategy**

The strategy, objectives and key performance indicators are set out in the Strategic report commencing on page 5.

## **Principle Two – Board Composition**

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

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

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

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

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

## **Chair**

The Chair is responsible for the leadership of the Committee of Management and is committed to working for the Society for approximately 20 days per annum. The job description for the roles of the Society's Chair, Chief Executive and Company Secretary are available on the Society's website.

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

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

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

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

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

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

**Corporate Governance Report**  
**for the Year Ended 31 December 2021 (continued)**

**Balance and Diversity**

The Committee of Management comprises the Chair, Vice-Chair, Senior Independent Director, Chief Executive, Company Secretary and seven other Non-Executive directors. It currently consists of nine men and three women

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

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

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

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

The Society operates an equal opportunities policy. It does not discriminate unlawfully when deciding which candidate is considered for a vacancy or in any terms of employment. The Society ensures that each candidate is assessed only in accordance with the candidate's merits, qualifications and ability to perform the relevant duties required by the particular vacancy.

**Size and Structure**

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

In view of the forthcoming retirements two new Non-Executive directors joined the Committee of Management during 2021.

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

The Society does not automatically terminate appointments after nine years because to lose the experience built up over this period would not be beneficial to the Society. In considering the re-appointment of Christine and Jamie the Committee of Management have considered their relevant skills in relation to the Society's requirements and have concluded that there is no evidence that the time served would adversely affect their integrity or independence.

Christine has indicated her intention to retire at the 2022 AGM, Jamie is expected to retire in 2023.

**Effectiveness**

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

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

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

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

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

The business experiences of the Committee of Management members, both individually and collectively, ensure that they can challenge constructively and help to develop proposals on strategy. As a body they bring strong independent judgement, knowledge and experience to the Committee of Management's deliberations. The independent members are of sufficient calibre and number that their views carry significant weight in the Committee of Management's decision making.

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

### **Principle Three – Director Responsibilities**

#### **Accountability**

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

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

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

#### **Committees**

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

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

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

Details of the work undertaken during the year by each committee is set out later in this report commencing on page 17.

The terms of reference of all the committees are regularly reviewed. The terms of reference of all the committees and the job descriptions of the officers of the Society are available on the Society's website.



**The Kensington Friendly Collecting Society Limited**  
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**for the Year Ended 31 December 2021 (continued)**

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

	Committee of Management	Finance & Investment	Audit & Risk	Remuneration & Assessment	Nomination	Product Oversight & Governance
<b>Attendances possible</b>	<b>5</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>1</b>
Mark Brooks	4	2	-	1	1	-
Philip Carey	5	2	-	-	1	-
Christine Scott	5	2	-	1	1	1
Jamie Brown	3	-	2	1	-	-
Gary Ferguson	3	1	-	0	-	1
Brian Douglass	5	2	3	-	-	-
Debra Barker	5	-	3	1	1	1
Gillian Dobson	5	-	3	1	-	-
Andrew Douthwaite	3	1	2	1	-	-
Dominic Gardner	4	-	2	1	-	-
Mark Dobing	2/2	1/1	-	-	-	-
Liam Moloney	2/2	-	1/1	-	-	-

#### **Integrity of information**

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

#### **Principle Four – Opportunity and Risk**

##### **Opportunity and Risks**

The Strategic Report at page 5 details the opportunities and the major risks that the Committee of Management is currently considering together with the actions that the Committee of Management is taking to mitigate these risks.

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

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

##### **Responsibilities**

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

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

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**Corporate Governance Report**  
**for the Year Ended 31 December 2021 (continued)**

**Principle Five – Remuneration**

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

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

The remuneration of the Committee of Management is set out in the Remuneration Report starting on page 23.

**Principle Six – Stakeholder Relationships and Engagement**

**Members**

The home collection service and the member relations policy that the Society operates allows the Society to maintain close links with the membership and any issues arising can be appropriately and quickly addressed. With the migration to electronic payments the Society is in the process of introducing a policy to ensure all members are contacted on a regular basis.

Notice of the AGM is provided at least 20 working days in advance of the meeting. Members of the Committee of Management will be in attendance at the AGM to answer members’ queries. The Committee of Management continues to look at how it may increase the attendance at the AGM.

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

**Employees**

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

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

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

The new Customer Relationship Management (CRM) system is expected to be operational in 2022 and the Committee of Management members are confident it will improve efficiency and the members’ experience.

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

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

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**Corporate Governance Report**  
**for the Year Ended 31 December 2021 (continued)**

## **Suppliers**

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

## **Community and the Environment**

As part of the Society's member engagement policy and to increase the awareness of the Society within the local communities, the Society has set up a small community fund that aims to assist members with financial assistance for charitable projects.

The work that the Society is undertaking around its corporate social responsibilities is set out in the Strategic Report on page 6.

## **Committee Reports**

### **Committee of Management**

During 2021 the Committee of Management:

- Approved the Annual Reports and Accounts for 2020.
- Approved the budget for 2022 and the business plan.
- Approved the regulatory actuarial valuation of policy liabilities as at 31 December 2020.
- Received regular reports on the financial performance of the Society and performance against budget.
- Received and considered reports from the Chairs of the Audit and Risk Committee, Finance and Investment Committee, Remuneration and Assessment Committee and the Product Oversight and Governance Committee.
- Received updates from the Chief Executive and Company Secretary on the Society's marketing activities and performance against strategic objectives.
- Regularly reviewed key risks and assessed the mitigation of these including the covid-19 pandemic and the Society response to mitigate the risks to the Society, staff and membership.
- Received training from the Society actuary and Investment Managers.

### **Audit and Risk Committee**

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

During 2021 the Audit and Risk Committee met three times and comprised the following Members:

Gillian Dobson - Chair  
Debra Barker  
Jamie Brown  
Brian Douglass  
Andrew Douthwaite  
Dominic Gardner  
Liam Moloney

The Committee of Management has considered the expectations of the PRA regarding the independence and competence of Audit Committees and is satisfied that these conditions are being met by the Society. The Committee of Management Chair is not a member of this committee. The academic, business and financial experience of the members enables the committee to fulfil its terms of reference in a robust and independent manner.

The committee as a whole has the opportunity to meet privately with both the internal auditor and external auditor at any time. The internal auditor attended all three meetings during 2021.

**The Kensington Friendly Collecting Society Limited**  
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**Corporate Governance Report**  
**for the Year Ended 31 December 2021 (continued)**

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

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

#### **Activities in 2021**

The Audit and Risk Committee discharged its responsibilities by:-

- Reviewing of the Society's progress on meeting Treating Members Fairly obligations.
- Reviewing the Society's draft financial statements and the independence/performance of the auditors to enable it to make a recommendations to the Committee of Management regarding the approval of the financial statements and appointment/ re-appointment of external auditors.
- Reviewing and approving the internal audit plan and resources for the internal audit function. The internal audit plan is constructed taking a risk-based approach with the review cycle ensuring that financially material operations are reviewed annually and all activities are reviewed at least once every three years.
- Considering internal audit reports and actions taken to implement the recommendations in those reports.
- Reviewing and expanding the Society's risk register and considering and improving the mitigating policies in place to manage downwards these risks to the Society. The covid-19 pandemic has impacted upon our existing principal risks. However, it was not considered necessary to create any new principal risks.
- Reviewing the Society's system of internal control and its effectiveness and reporting to the Committee of Management on the results of that review and where appropriate recommending changes to make the system more efficient.
- Reviewing the impact of the covid-19 restrictions and the increase in remote working upon the Society and the mitigation of these risks.

#### **Remuneration and Assessment Committee**

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

#### **Nomination Committee**

This comprises the following:-

Mark Brooks - Chair  
Debra Barker  
Philip Carey  
Christine Scott

The Committee undertook a full review of the various Committees and officers. Due to Christine Scott and Jamie Brown exceeding their nine years on the Committee of Management their roles were considered and they were approved to stand for re-election at the 2021 AGM. The Committee also recommended that two new candidates be co-opted onto the Committee of Management.

Christine Scott confirmed it was her intention to step down at the AGM in 2022.

**The Kensington Friendly Collecting Society Limited**  
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**Corporate Governance Report**  
**for the Year Ended 31 December 2021 (continued)**

**Finance and Investment Committee**

This comprises the following:-

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

The committee met on two occasions during 2021.

During 2021 the committee performed the following tasks:-

- Reviewed the Society's investment strategy, financial performance and estimated solvency position following the movements in the equity markets and the actions taken by the Society in response to this.
- Reviewed the effectiveness of the marketing strategy including the development of a social media campaign.
- Reviewed progress on the development of the CRM system.

The main role of the committee is to review the financial performance against budget, to monitor investment performance of the Society's brokers within the agreed risk profile and consideration of business development and marketing activities.

In addition to the formal meetings the Executive hold monthly conference calls with the Investment managers to discuss the investment strategy and market conditions.

**Product Oversight and Governance Committee**

This comprises the following:-

Debra Barker - Chair  
Christine Scott  
Gary Ferguson

The fourth annual meeting of this Committee was held during the year. The Committee was formed in response to PRA recommendations and the introduction of the Insurance Distribution Directive to consider the Society's Treating Customers Fairly responsibilities and to review existing and new products from a risk perspective.

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

The meeting discussed market conditions, target market, distribution methods, the current product range, value for money & customer service and the product literature.

From the review of the product range, working with the Appropriate Actuary, a recommendation was agreed that the Quinquennial policy be withdrawn due to low sales volumes and associated costs. This product was withdrawn as of 1 January 2022.

On behalf of the Committee of Management

Brian Douglass  
Company Secretary  
Date: 12 May 2022

**The Kensington Friendly Collecting Society Limited**  
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**Report of the Committee of Management**  
**for the Year Ended 31 December 2021**

The Committee of Management presents its annual report and audited financial statements for the Society for the year ended 31 December 2021. This report should be read in conjunction with the Strategic Report set out on pages 5 to 8.

**Members of the Committee of Management**

The Members of the Committee of Management are shown on page 1, and brief biographies on pages 9 and 10. All Members of the Committee of Management with the exception of Christine Scott will be standing for re-election at the forthcoming annual general meeting.

**Business objectives and activities**

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

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

**Business Review**

The Society performance is reviewed by the Chair on page 3, the Chief Executive on page 4 and in the Strategic Report on pages 5 to 8.

The overall financial position of the Society as at 31 December 2021 is considered satisfactory bearing in mind the local economic climate, the volatility in the world financial markets and the restrictions imposed by the coronavirus outbreak (See Going Concern Basis below).

**Statement of Solvency**

Sally Butters of OAC plc performs the function of Appropriate Actuary. Fees paid to OAC plc are disclosed in note 11 to the financial statements.

As at 31 December 2021, the Society had in the opinion of the Appropriate Actuary the required solvency margins prescribed in section 48(2) Friendly Societies Act 1992.

**Going Concern Basis**

The Committee of Management considers that the Society has adequate resources to continue in business for the foreseeable future. In making this assessment the committee has considered the above Statement of Solvency from the Appropriate Actuary and the actuarial valuation and has also considered the coronavirus pandemic that is still on-going. The Society's management has responded to this threat by taking measures designed to protect the assets of the Society. The Committee of Management, with the assistance of the Appropriate Actuary, has reviewed the potential effect of an increased level of claims over the next twelve months and does not believe that the impact will cast any significant doubt upon the ability of the Society to meet its regulatory capital requirements or to continue as a going concern for a period of at least twelve months from the date of approval of these financial statements.

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

**Charitable and Political donations**

The Society made local charitable donations during the year totalling £500 (2020: £Nil).

**The Kensington Friendly Collecting Society Limited**  
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**Report of the Committee of Management**  
**for the Year Ended 31 December 2021 (continued)**

**Equal Opportunities**

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

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

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

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

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

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

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

**Statement of Committee of Management Responsibilities**

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

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

The 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.

**The Kensington Friendly Collecting Society Limited**  
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**Report of the Committee of Management**  
**for the Year Ended 31 December 2021 (continued)**

**S172(1) Companies Act 2006 – Director’s Duties Statement**

S172 of the Companies Act 2006 requires a Director of a company to act in a way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a Director to have regard (among other matters) to:-

- the likely consequences of any decision in the long term;
- the interests of the company employees;
- the need to foster the company’s business relationships with suppliers, customers and others;
- the impact of the company’s operations on the community and the environment;
- the desirability of the company maintaining a reputation of high standards of business conduct; and
- the need to act fairly as between members of the company.

As a mutual organisation the Society exists for the benefit of its members and the Committee of Management consider this in all decisions. Details of how the Directors fulfil these duties are set out in the Strategic Report (pages 5 to 8) and Corporate Governance Report (pages 11 to 19).

**Auditors**

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

In accordance with Section 72 of the Friendly Societies Act 1992, a resolution is to be proposed at the AGM 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: 12 May 2022



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

**Remuneration Report**  
**for the Year Ended 31 December 2021**

This report is submitted in respect of the year ended 31 December 2021. A vote to approve the report will be put to the 2022 Annual General Meeting.

**Remuneration and Assessment Committee**

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

**Remuneration policy**

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

The Society does not operate a long term-incentive scheme.

**Executive Committee Members**

Executive committee members are paid a salary to reflect the individual's experience and responsibility. It is based upon the members of the Remuneration Committee's experience of the local market, the size of the role and Society and individual performance. In addition, the Society pays pension contributions for the executive members.

With the authority of the Committee of Management, the Chief Executive holds other external Executive and Non-Executive appointments. In addition to his role as Chief Executive, Philip Carey is the managing partner of Careys Consumer Credit, a role that was approved by the Committee at the time of his appointment as Chief Executive. Throughout 2021 Mr Carey also served as chairman of the Consumer Credit Association (CCA). This appointment was approved by the Committee of Management.

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

**Non-Executive Members**

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

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

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

**The Kensington Friendly Collecting Society Limited**  
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**Remuneration Report**  
**for the Year Ended 31 December 2021 (continued)**

**Staff Salaries**

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

**Fees, salaries and benefits of the Committee of Management in 2021 amounted to:-**

	<b>Fees</b>	<b>Salary</b>	<b>Benefits</b>	<b>Pension</b>	<b>Total</b>	2020
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Mark Brooks	2,305	-	-	-	<b>2,305</b>	2,042
Philip Carey	-	25,602	-	7,363	<b>32,965</b>	32,690
Jamie Brown	1,340	-	-	-	<b>1,340</b>	1,407
Christine Scott	1,765	-	-	-	<b>1,765</b>	1,568
Gary Ferguson	1,255	-	-	-	<b>1,255</b>	1,075
Brian Douglass	-	32,561	-	949	<b>33,510</b>	29,613
Debra Barker	2,865	-	-	-	<b>2,865</b>	2,478
Gillian Dobson	1,595	-	-	-	<b>1,595</b>	1,492
Andrew Douthwaite	1,425	-	-	-	<b>1,425</b>	1,160
Dominic Gardner	1,255	-	-	-	<b>1,255</b>	1,326
Mark Dobing	590	-	-	-	<b>590</b>	-
Liam Moloney	590	-	-	-	<b>590</b>	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	14,985	58,163	-	8,312	<b>81,460</b>	74,851

Gary Ferguson  
Chair of the Remuneration Committee

Date: 12 May 2022

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

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

## **Opinion**

We have audited the financial statements of The Kensington Friendly Collecting Society Limited for the year ended 31 December 2021 which comprise the Income and Expenditure Account, the Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standards 102 and 103 'The Financial Reporting Standards applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2021 and of its income and expenditure for the year then ended.
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

## **Basis of opinion**

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

## **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the Committee of Management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Committee of Management with respect to going concern are described in the relevant sections of this report.

## **Key audit matters**

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

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**Key audit matters continued**

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

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

**Our application of materiality**

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

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

When establishing our overall audit strategy, we determined an overall level of uncorrected misstatement that we judged would be material for the financial statements as a whole. We determined planning materiality for the Society to be £37,600 which is approximately 0.5% of total assets.

On the basis of our risk assessment, together with our assessment of the Society's overall control environment, our judgement is that the overall performance materiality level should be 90% of planning materiality, namely £33,800.

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 £8,600 specifically for the Income and Expenditure Account. Our objective in adopting this approach is to ensure that total detected and undetected audit differences that would affect the Income and Expenditure Account do not exceed this performance materiality level.

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

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**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 a suitably qualified and experienced 'Independent Actuary' to review and challenge the methodology, assumptions and calculations of the Appropriate Actuary's long term business provision liabilities. We also tested the integrity of the actuarial data extracted from the Society's policy data;
- we carried out substantive testing on the Society's premium income relating to existing policies, new policies written in the year and surrendered policies, as well as analytical and cut-off procedures to ensure revenue recognition policies complied with the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice);
- we carried out analytical procedures and journal entry testing in order to identify and test the risk of error or fraud arising from management override control;
- the work of the Independent Actuary also allows us to consider the appropriateness of the Statement of Solvency on page 20.

**Other information**

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

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

We have nothing to report in this regard.

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

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

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

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

In the light of the knowledge and understanding of the Society and its environment obtained in the course of our audit, we have not identified material misstatements in the Strategic Report or the Report of the Committee of Management.

**- Friendly Societies Act 1992:**

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

- adequate accounting records have not been kept;
- a satisfactory system of control has not been maintained;
- certain disclosures of the Committee of Management's remuneration specified by law are not made;
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents that we require for our audit.

**Responsibilities of the Committee of Management**

As explained more fully in the Committee of Management's responsibilities statement set out on page 21, the Committee of Management is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the industry, we have considered applicable laws and regulations which may be fundamental to the Society's ability to operate or to avoid a material penalty, and we considered the extent to which non-compliance might have a material effect on the financial statements. We considered management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate manual journal entries to manipulate financial performance, management bias in significant accounting estimates and any significant one-off or unusual transactions.

We discussed among the audit engagement team the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

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Audit procedures performed by the engagement team included:

- Enquiry of management, those charged with governance and the entity's solicitors around actual and potential litigation and claims.
- Enquiry of entity staff in tax and compliance functions to identify any instances of non-compliance with laws and regulations.
- Reviewing minutes of meetings of those charged with governance.
- Reviewing internal audit reports.
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.
- Auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness, and evaluating the business rationale of significant transactions outside the normal course of business.
- Challenging estimates and judgements made by management in their significant accounting estimates.
- Revenue recognition; agreeing a sample of revenue transactions to gain assurance over the occurrence and accuracy of revenue and also to ensure revenue has been recognised in the correct period.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. The risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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

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

We were appointed by the Committee of Management on 1 December 2010. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 12 years.

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

**Use of our report**

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

Helen Wilson FCA (Senior Statutory Auditor)  
For and on behalf of Anderson Barrowcliff LLP  
Statutory Auditor  
Chartered Accountants  
3 Kingfisher Court  
Bowesfield Park  
Stockton on Tees  
TS18 3EX

Date: 20 May 2022

**The Kensington Friendly Collecting Society Limited**  
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**Income and Expenditure Account**  
**for the Year Ended 31 December 2021**

**Technical Account - long term business**

	Note	2021 £	2020 £
Earned premiums	5	855,037	865,615
Investment income	6	219,238	71,351
Other income	7	18,325	34,968
Unrealised (losses)/gains on investments	6	(677,441)	447,557
		<u>415,159</u>	<u>1,419,491</u>
Claims incurred	8	908,780	861,862
Changes in other technical provisions	15	(733,159)	457,136
<b>Net operating expenses</b>			
Acquisition expenses	9	80,202	97,209
Administrative costs	9	139,398	139,620
Investment expenses and charges	9	71,227	72,640
Transfer from the fund for future appropriations	15	(51,289)	(208,976)
		<u>415,159</u>	<u>1,419,491</u>
Balance on the technical account - long term business		<u>-</u>	<u>-</u>

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

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

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

All income and expenditure relates to continuing operations.



**The Kensington Friendly Collecting Society Limited**  
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**Balance Sheet as at 31 December 2021**

	Note	2021 £	2020 £
<b>Assets</b>			
<b>Investments</b>			
Land and buildings	12	175,000	175,000
Other financial investments		7,231,332	8,051,048
<b>Debtors</b>			
Debtors arising on direct insurance operations		30,078	30,598
Taxation recoverable		166	50
<b>Other assets</b>			
Tangible assets	13	2,915	8,139
Intangible assets	14	40,275	33,975
Cash at bank and in hand		111,659	83,255
<b>Prepayments and accrued income</b>			
Accrued income		29,495	30,337
Prepayments		11,771	13,400
		<u>7,632,691</u>	<u>8,425,802</u>
<b>Liabilities</b>			
<b>Fund for future appropriations</b>			
	15	872,638	923,927
<b>Technical provisions</b>			
Long term business provision	15	6,639,577	7,372,736
<b>Creditors</b>			
Taxation and social security		3,546	2,180
Other creditors		116,930	126,959
		<u>7,632,691</u>	<u>8,425,802</u>

The financial statements were approved and authorised for issue by the Committee of Management on 12 May 2022 and were signed on their behalf by: -

Philip Carey

Brian Douglass

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

**Notes to the Financial Statements for the Year Ended 31 December 2021**

**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.

**Going concern**

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

**2 Accounting Policies**

**Premium income**

Earned premiums are accounted for as they fall due.

Premium income recognised in the 2021 financial statements represent a 52 week period (2020: 53 weeks)

**Grants**

The society received government grants in 2020 in respect of the Coronavirus Jobs Retention Scheme and small business rates relief. These grants are recognised at their fair value of the asset received or receivable when there is reasonable assurance the Society will comply with the conditions attached to them. The grants are recognised using the accrual model.

**The Kensington Friendly Collecting Society Limited**  
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**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

**Investment income and expense**

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

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

**Unrealised gains and losses**

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

**Claims**

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

**Acquisition costs**

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

**Taxation**

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

**Pension costs**

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

**Investments**

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

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

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

Investment properties 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.

**The Kensington Friendly Collecting Society Limited**  
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**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

**Debtors arising on direct insurance operations**

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

**Depreciation**

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

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

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

**Impairment**

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

**Long term business provision**

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

**Funds for future appropriations**

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

**Cash flow statement**

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

**Critical accounting estimates and judgements**

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

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

**The Kensington Friendly Collecting Society Limited**  
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**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

**Critical accounting estimates and judgements continued**

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

**Key sources of estimation uncertainty**

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

- (i) **Valuation of long-term insurance contract liabilities:**  
The liability relating to long-term insurance contracts is based on assumptions reflecting the current best estimate and margins for adverse deviations. The assumptions used for mortality are based upon standard industry tables, adjusted where appropriate to reflect the Society's own experience. The assumptions used for investment returns, expenses and persistency are based on current market yields, product characteristics and relevant experience. The assumptions used for discount rates are based on current market yields adjusted for the Society's own risk exposure. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty.
- (ii) **Fair value estimations:**  
The Committee of Management use their judgement in selecting appropriate valuation techniques. The investments are all held on a recognised stock market and are valued at the mid-market price. The freehold property was valued by a chartered surveyor in April 2019 and the valuation has been reviewed by the directors as explained in note 12.

**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 UL legislation.

**The Kensington Friendly Collecting Society Limited**  
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**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

*Policies and objectives continued*

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

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

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

**Capital Statement**

The following table sets out the capital available:-

	2021		2020	
	£	£	£	£
Fund for future appropriations	872,638		923,927	
Less: Inadmissible assets	(45,525)		(39,225)	
Resilience reserve	(40,000)		(73,229)	
Expense reserve	(90,000)		(50,445)	
		<b>697,113</b>		761,028
Capital available to meet regulatory capital requirements		<b>697,113</b>		761,028
Regulatory capital requirements		<b>299,018</b>		326,112
<b>Capital in excess of regulatory capital requirements</b>		<b>398,095</b>		434,916

The movement in capital resources is as follows:-

	2021	2020
	£000s	£000s
Capital available as at 1 January	761	925
Change in assumptions in the valuation basis	698	(470)
Economic factors – investments	(562)	415
Economic factors – expenses	(6)	5
(Cost)/surplus on new business	(127)	(188)
(Deficit)/surplus on exits	(61)	38
Change in contingency reserves	(6)	36
<b>Capital available as at 31 December</b>	<b>697</b>	761

The assets available for the Required Minimum Margin are 233% of the RMM (233% last year).

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

**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

***Measurement and monitoring of capital***

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

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

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

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

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

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

**Market conditions**

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

**Demographic assumptions**

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

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

	<b>2021</b>	2020
	<b>£</b>	£
Whole of life	<b>3,668,212</b>	4,007,099
Endowment	<b>1,330,133</b>	1,418,406
Quinquennial	<b>1,641,232</b>	1,947,231
<b>Total</b>	<b>6,639,577</b>	7,372,736

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>782</b>
Increase in expenses allowance by 5%	<b>369</b>
Increase in mortality rates by 15%	<b>222</b>

**The Kensington Friendly Collecting Society Limited**  
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**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

**4 Risk management and control**

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

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

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

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

The principal methods involve:-

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

**Insurance risk**

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

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

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

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

The following risk factors are components of insurance risk:-

*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.



**The Kensington Friendly Collecting Society Limited**  
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**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

**Insurance risk (continued)**

*Lapse risk*

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

*Expense risk*

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

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

**Credit risk**

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

Asset portfolios are monitored and reviewed regularly by the board.

(c) **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:-

	2021	2020
	£	£
<b>Assets</b>		
Bonds	<b>6,452,528</b>	7,701,048
Equities/Collectives	<b>778,804</b>	350,000
Property	<b>169,750</b>	169,750
Deposits	<b>111,659</b>	83,255
	<hr/>	<hr/>
<b>Total</b>	<b>7,512,741</b>	8,304,053
	<hr/>	<hr/>

**The Kensington Friendly Collecting Society Limited**

**Trading as Tees Mutual**

**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

(d) **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>2021</b>
	<b>£</b>
UK Government Bonds	<b>6,339,236</b>
Corporate Bonds	<b>113,292</b>
<b>Total</b>	<b>6,452,528</b>

**Equities**

Investments in equities are limited.

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

	<b>United Kingdom (£)</b>	<b>Overseas (£)</b>
Direct	34,604	-
Collectives	718,155	26,044
<b>Total</b>	<b>752,759</b>	<b>26,044</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.

**The Kensington Friendly Collecting Society Limited**  
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**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

**Market risk**

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

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

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

Below are the key factors that underlie market risk:-

(i) **Currency risk**

The Society denominates all its insurance contracts in Sterling.

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

	<b>United Kingdom (£)</b>	<b>Overseas (USD)</b>
<b>USD only</b>		
Direct	-	-
Collectives	26,044	35,226
<b>Total</b>	<u>26,044</u>	<u>35,226</u>

(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.

**The Kensington Friendly Collecting Society Limited**  
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**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

**Summary of market risk sensitivities**

	<b>Change in surplus assets (£K)</b>
Fixed interest yields fall by 1%	<b>(697)</b>
Equity values fall by 10%	-
Fixed interest yields rise by 1%	<b>(444)</b>
Equity values rise by 10%	-

(iv) **Property price risk**

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

**5 Earned premiums**

Earned premiums relate entirely to periodic industrial assurance premiums collectable, contracted for in the United Kingdom.

**6 Investment income**

	<b>2021 £</b>	<b>2020 £</b>
Income from land and buildings	<b>5,247</b>	5,017
Income from listed investments	<b>168,230</b>	167,034
Gains/(losses) on investments realised	<b>45,758</b>	(100,712)
Bank interest	<b>3</b>	12
	<b>219,238</b>	<b>71,351</b>
	<b>219,238</b>	<b>71,351</b>

	<b>2021 £</b>	<b>2020 £</b>
Unrealised (losses)/gains - financial investments at fair value	<b>(667,441)</b>	447,557
	<b>(667,441)</b>	447,557
	<b>(667,441)</b>	447,557

**7 Other income**

	<b>2021 £</b>	<b>2020 £</b>
Home collection fees	<b>18,325</b>	17,031
Government grants	<b>-</b>	17,937
	<b>18,325</b>	34,968
	<b>18,325</b>	34,968

**The Kensington Friendly Collecting Society Limited**  
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**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

<b>8</b>	<b>Claims incurred</b>		<b>2021</b>	2020
			£	£
	Deaths		485,983	427,542
	Maturities		163,851	165,673
	Surrenders		135,091	129,568
	Bonuses		42,137	56,780
			<hr/>	<hr/>
			<b>827,062</b>	779,563
	Claims processing expenses		81,718	82,299
			<hr/>	<hr/>
			<b>908,780</b>	861,862

<b>9</b>	<b>Expenses</b>		<b>2021</b>	2020
			£	£
	Acquisition expenses		80,202	97,209
	Administration		139,398	139,620
	Investment expenses and charges		71,227	72,640
	Claims processing expenses		81,718	82,299
			<hr/>	<hr/>
			<b>372,545</b>	391,768

<b>Expenses continued</b>		<b>2021</b>	2020
		£	£
	Committee and staff remuneration (see below)	223,877	231,282
	Audit	21,500	26,037
	Actuary	41,280	43,176
	Stockbroker	23,050	25,505
	Depreciation	5,946	6,732
	Other overheads	52,622	54,884
	Registration fees and subscriptions	4,270	4,152
		<hr/>	<hr/>
		<b>372,545</b>	391,768

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

		<b>2021</b>	2020
		11	10
	Committee	4	4
	Administration	15	16
	Sales	<hr/>	<hr/>
		<b>30</b>	30

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

		<b>2021</b>	2020
		£	£
	Committee Members	73,148	66,965
	Staff wages	133,750	149,589
	Social security costs	7,013	5,388
	Pension contributions	9,966	9,340
		<hr/>	<hr/>
		<b>223,877</b>	231,282

**The Kensington Friendly Collecting Society Limited**  
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**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

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

	<b>2021</b>	2020
£1 - £5,000	<b>10</b>	8
£25,001 - £30,000	<b>1</b>	1
£30,001 - £35,000	<b>1</b>	1
	<b>12</b>	10
	<b>12</b>	10

The Chair received £2,305 (2020: £2,042) and the highest paid member of the committee received £32,561 (2020: £28,805).

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

	<b>2021</b>	2020
Money purchase schemes	<b>2</b>	2

**10 Audit fees**

	<b>2021</b>	2020
	<b>£</b>	<b>£</b>
Audit	<b>21,500</b>	21,500
Other	-	840
Under provision previous year	-	3,697
	<b>21,500</b>	26,037
	<b>21,500</b>	26,037

**11 Actuaries fees**

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

The Society has requested her to furnish it with particulars required under Section 77 of the Friendly Societies Act 1992. Ms Butters has confirmed that neither she or her family, nor any of her associates, were members of the Society, nor have they any financial pecuniary interest in the Society, with the exception of fees payable to OAC plc, which are shown as follows:-

	<b>2021</b>	2020
	<b>£</b>	<b>£</b>
Valuation work	<b>41,280</b>	36,480
Special work	-	6,696
	<b>41,280</b>	43,176
	<b>41,280</b>	43,176

**12 Investments**

**Land and buildings**

		<b>2021</b>
		<b>£</b>
At 1 January 2021		175,000
<b>At 31 December 2021</b>		<b>175,000</b>
		<b>175,000</b>

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

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**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

On 29 April 2019 the directors obtained an independent market valuation of the freehold property prepared by Thomas Stevenson, Chartered Surveyors, at £175,000. The valuation was carried out in accordance with the RICS Valuation Standards. The property is freehold; it is partially let to third parties, income from which is reflected in investment income. The historical cost of land and buildings at 31 December 2021 was £336,610 (2020 - £336,610).

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

**Other financial investments**

	2021		2020	
	Market Value £	Cost £	Market Value £	Cost £
British Funds	6,339,236	6,193,534	7,581,437	6,700,281
Fixed Interest	113,292	102,343	119,611	102,343
Financial services	29,704	24,222	-	-
Diversified Collective Investments	183,693	169,015	350,000	350,000
North America	207,570	189,707	-	-
Europe	69,685	60,892	-	-
Japan	11,354	11,654	-	-
Asia Pacific	89,586	87,775	-	-
Other overseas	167,273	151,267	-	-
Absolute return	19,939	19,940	-	-
	<b>7,231,332</b>	<b>7,010,349</b>	<b>8,051,048</b>	<b>7,152,624</b>
	<b>7,231,332</b>	<b>7,010,349</b>	<b>8,051,048</b>	<b>7,152,624</b>

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

**13 Tangible assets**

	Fixtures and fittings £	Total £
<b>Cost</b>		
At 1 January 2021	80,694	80,694
Additions	722	722
Disposals	(475)	(475)
<b>At 31 December 2021</b>	<b>80,941</b>	<b>80,941</b>
<b>Depreciation</b>		
At 1 January 2021	72,555	72,555
Charge for the year	5,946	5,946
Depreciation eliminated on disposals	(475)	(475)
<b>At 31 December 2021</b>	<b>78,026</b>	<b>78,026</b>
<b>Net Book Value at 31 December 2021</b>	<b>2,915</b>	<b>2,915</b>
Net Book Value at 31 December 2020	8,139	8,139

**The Kensington Friendly Collecting Society Limited**  
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**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

**14 Intangible assets**

	<b>CRM System £</b>	<b>Total £</b>
<b>Cost</b>		
At 1 January 2021	33,975	33,975
Additions	6,300	6,300
<b>At 31 December 2021</b>	<b>40,275</b>	<b>40,275</b>
<b>Net Book Value at 31 December 2021</b>	<b>40,275</b>	<b>40,275</b>
Net Book Value at 31 December 2020	33,975	33,975

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

**15 Funds and technical provisions**

	<b>Long term business provision £</b>	<b>Fund for future appropriations £</b>
At 1 January 2021	7,372,736	923,927
Transfer from the technical account	(733,159)	(51,289)
<b>At 31 December 2021</b>	<b>6,639,577</b>	<b>872,638</b>

**16 Long-term business provision**

(a) **Analysis of insurance contract liabilities**

	<b>2021 £</b>	<b>2020 £</b>
Participating insurance contract liabilities	<b>6,310,654</b>	7,002,912
Non-participating insurance contract liabilities	<b>328,923</b>	369,824
<b>Total insurance contract liabilities</b>	<b>6,639,577</b>	<b>7,372,736</b>

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

	<b>2021 £</b>	<b>2020 £</b>
Balance at 1 January	<b>7,372,736</b>	6,915,600
Valuation interest rate change	<b>(698,467)</b>	470,384
Policy movements	<b>(34,692)</b>	(13,248)
Cost of bonus	-	-
<b>Balance at 31 December</b>	<b>6,639,577</b>	<b>7,372,736</b>



**The Kensington Friendly Collecting Society Limited**  
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**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

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

***Interest rates***

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

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

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

The resultant interest rates were:-

	<b>Interest rate</b>	
With profit premium paying	0.65%	(2020 : 0.20%)
Non-profit paid up	0.75%	(2020 : 0.27%)

***Mortality assumptions***

A mortality investigation was carried out into the 2021 experience on the Society's policies. The results were compared with the previous mortality investigation which used data from the preceding three financial years. The mortality assumptions used in the statutory valuation were:-

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

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

***Expenses***

The net premium method is used to value the liabilities.

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

- 0.36% of funds under management charge (deducted from the interest rate assumption)
- Plus 25% of all endowment and whole of life premiums payable and
- 20% of all quinquennial premiums payable
- Separate reserves for additional costs on closure to new business in 12 months and any new business expenses not covered for the coming 12 months
- An appropriate Retail Price Index (RPI) assumption for inflation purposes of 3.60%.

The closed fund expenses were not covered by the expense margins above and a reserve of £90,000 (2020: £50,445) made.

There was no requirement to hold an expense overrun reserve.

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**Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)**

***Persistency – lapses and surrenders***

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

**18 Transactions with related parties**

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

The Society leases office space to Careys at an annual rental of £6,000 (2020: £6,000) on independently assessed commercial terms. The Society also charges and recharges common overheads with Careys, again on normal commercial terms. During the year Careys charged the Society £25,408 (2020: £36,129) and the Society charged Careys £15,620 (2020: £19,882) in respect of these common overheads. This sharing of costs enables economies of scale to be realised. At the year end the sum of £2,284 (2020: £2,009) was due from the Society to Careys and Careys owed the Society £1,093 (2020: £1,725).

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

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

**19 Pension costs**

During the year the Society paid £9,966 (2020: £9,246) into defined contribution pension schemes for the benefit of certain employees. The assets of the schemes are held separately to the assets of the Society in independently administered funds. At 31 December 2021 there were £606 outstanding contributions (2020: £553).

**20 Financial instruments**

The carrying amounts of the financial instruments are as follows:-

	<b>2021</b>	2020
	£	£
<b>Financial assets</b>		
Measured at fair value through income or expenditure		
- Fixed asset listed investments (note 12)	<b>7,231,332</b>	8,051,048
Debt instruments measured at undiscounted amounts receivable		
- Debtors arising on direct insurance operations	<b>30,078</b>	30,598

**21 Capital commitments**

	<b>2021</b>	2020
	£	£
Contracted for but not provided for in the financial statements	<b>5,681</b>	-

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