

Railway Enginemen's Assurance
Society Limited

FINANCIAL STATEMENTS

for the year ended

31 December 2012

Railway Enginemen's Assurance Society Limited

CONTENTS PAGE

	<i>Page</i>
Officers, advisers and registered office	2
Management Committee's Annual Report	3
Corporate Governance Report	8
Remuneration Report	15
Independent Auditor's Report to the members of Railway Enginemen's Assurance Society Limited	17
Income and expenditure account	18
Balance sheet - Assets	19
Balance sheet - Liabilities	20
Accounting policies	21
Notes to the financial statements	23

Railway Enginemen's Assurance Society Limited

OFFICERS, ADVISERS AND REGISTERED OFFICE

MANAGEMENT COMMITTEE

G W Nash Chairman
A Edwards Deputy Chairman
R G Frier
W C H Goode
J W Goolamier
A R McGilvray
J McKenna
A D Rich
J S Turner

AUDITORS

Baker Tilly UK Audit LLP
Chartered Accountants
St Philips Point
Temple Row
Birmingham
B2 5AF

SOLICITORS

The Wilkes Partnership
41 Church Street
Birmingham
B3 2RT

Hadgkiss Hughes & Beale
83 Alcester Road
Moseley
Birmingham
B13 8EB

INVESTMENT MANAGERS

Close Brothers Asset Management
8th Floor
10 Exchange Square
Primrose Street
London
EC2A 2BY

THE SOCIETY IS:

- Incorporated under the Friendly Societies Act 1992, Registered Number 708F
- Authorised and regulated by the Financial Services Authority (FSA), Reference Number 110047
- A participant in the Financial Services Compensation Scheme (FSCS)
- A member of the Association of Financial Mutuals (AFM)

CHIEF EXECUTIVE AND SECRETARY

R Leddington FCA

REGISTERED OFFICE

727 Washwood Heath Road
Ward End
Birmingham
B8 2LE

ACTUARIAL FUNCTION HOLDER AND WITH-PROFITS ACTUARY

Stephen W Dixon FIA
Steve Dixon Associates LLP
Oaks House
18-22 West Street
Epsom
Surrey
KT18 7RG

BANKERS

Nat West Bank plc
868 Washwood Heath Road
Birmingham
B8 2WA

The Co-operative Bank
118-120 Colmore Row
Birmingham
B3 3BA

INTERNAL AUDITORS

CK Chartered Accountants
Castle Court 2
Castlegate Way
Dudley
DY1 4RH

Railway Enginemen's Assurance Society Limited

MANAGEMENT COMMITTEE'S ANNUAL REPORT

MANAGEMENT COMMITTEE'S ANNUAL REPORT

The Committee has pleasure in presenting its report and the financial statements of the Society for the year ended 31st December 2012. The accounts have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994.

BUSINESS OBJECTIVES AND ACTIVITIES

The Society's principal activity is to provide savings plans with life assurance to employees within the railway network through endowment policies which, in the case of those with Personal Track Safety certification, can include cover against permanent disablement.

In accordance with the Financial Services & Markets Act 2000, the Committee confirms that all activities carried out by the Society during the financial year are believed to have been within its rules and statutory powers.

BUSINESS REVIEW

Business performance

Your Management Committee is pleased to be able to report that, once again, the Society has achieved a sound set of results. While the economy continues to struggle to recover from the global downturn which started in 2008, the Society has continued to generate encouraging levels of new business, contain management costs and maintain a strong capital base.

The UK economy has managed barely any growth over the last two years with the vast majority of the population having seen incomes squeezed whilst being able to exert little or no influence over the continuing escalation of living costs. Euro zone countries have continued to be faced with severe austerity measures to combat their weakened economies and there remains little by way of positive news on the horizon.

Competition has continued throughout the financial services sector although lenders appear reluctant to release any significant amount of funds for the mortgage market. With mortgage interest rates having remained low and Bank Base Rate being kept at 0.50% throughout the year it has been yet another 12 months of subdued returns for savers. The attractive headline saving account interest rates appear to have vanished from the High Street which might be as a result of funds not being released for borrowers. The only high interest rates seen advertised now appear to be those of the payday loan companies.

Despite the difficult economic conditions we are encouraged by the continuing support for the Society and its products as evidenced by the levels of new business achieved. Our members have maintained their record for providing for the future for themselves and their families.

Membership

The Society maintains its aim of keeping things simple. We strive to put our members and their interests at the forefront of what we do and remain committed to treating customers fairly.

Our Depot Introducer network has been added to throughout the year in a drive to achieve increased coverage across the country. Our Area Representatives have remained very active in bringing in new members and we are ever looking towards developing new regions where at present we have a more limited exposure.

Railway Enginemen's Assurance Society Limited

MANAGEMENT COMMITTEE'S ANNUAL REPORT

BUSINESS REVIEW (continued)

Membership (continued)

In the year, 2,451 new policies were admitted, a fall of 8.06% from the significant number achieved in 2011. These policies accounted for combined new sums assured of £6.1m against the previous year's £6.8m.

Policies Summary	2012	2011
Number of policies at 31 December	17,668	17,404
Number of members	4,855	4,980
Number of new policies	2,451	2,666
New sums assured	£6.1m	£6.8m

Premiums earned for the year increased by 3.08% to £4,039,180 against £3,918,661 for 2011.

Claims

Claims totalling £3,839,581 were paid out during the year, a small increase from the £3,737,963 paid in 2011. The vast majority of claims represent maturity payments for policies taken out 10 or more years ago. A full analysis is shown in Note 2 of the financial statements.

Investments

Investment markets witnessed another year of unpredictable swings, with the FTSE 100 index experiencing quite wide movements throughout the 12 months. Fixed interest stocks also recorded fluctuations and there was much talk during the latter part of 2012 of a flight from fixed interest stocks into equities. Much of this stemmed from a drive to achieve higher yields but investors remain very cautious of being exposed to increased risk. Yields have remained depressed throughout the year and British government bonds have continued to retain popularity, particularly against some of the European alternatives.

The Society has maintained a cautious investment strategy and throughout 2012 a high solvency position was maintained whilst generating a steady investment income stream. Investment disposals during the year resulted in losses of £46,220, against losses of £69,876 from disposals in the previous year. At the end of 2012 there were unrealised gains of £53,842 in the value of investments held reflecting a largely unchanged position over the year. The market value of the investment holdings at the end of 2012 was £28,202,724 compared to £27,444,653 at the end of the previous year. Bank balances were £612,051 at the year end, against £984,991 held at the end of 2011. Investment income of £1,130,484 was generated in the year, a marginal increase over the £1,115,032 produced in 2011.

The global and domestic economic outlooks remain unclear and businesses and individuals alike continue to feel the impact of the downturn, which is now entering its fifth year. We remain mindful of the volatility of investment markets and continue to work closely with our actuary and our investment adviser to safeguard members' funds whilst endeavouring to maximise investment returns.

Net Operating Expenses

The Society strives constantly to keep the costs of running the business as low as possible and staff are ever mindful of ensuring value for money in all aspects of the operation. The costs of regulation and legislation continue to have a significant, and often disproportionate, impact on smaller organisations within the financial services sector and, unfortunately, there is little likelihood of this burden abating.

Railway Enginemen's Assurance Society Limited

MANAGEMENT COMMITTEE'S ANNUAL REPORT

BUSINESS REVIEW (continued)

Net Operating Expenses (continued)

Year	Earned Premiums	Increase over previous year	Net Operating Costs	Increase over previous year	Net operating costs/Earned premiums
	£'000	%	£'000	%	%
2003	3,177	5.38	629	4.43	19.79
2004	3,291	3.58	614*	(2.32)	18.67
2005	3,460	5.14	676	10.10	19.54
2006	3,524	1.85	693	2.51	19.67
2007	3,623	2.83	697	0.60	19.23
2008	3,680	1.56	714	2.44	19.40
2009	3,688	0.22	766	7.28	20.77
2010	3,709	0.57	742	(3.13)	20.01
2011	3,919	5.66	798	7.55	20.36
2012	4,039	3.06	799	0.13	19.78

* Excludes exceptional income of £58,760.

Future developments

Concerns remain that the outlook for the coming year and beyond will be extremely challenging. The domestic and global economies alike appear to lurch from one set of problems to another with each new glimmer of recovery being quickly dashed. There have been many false horizons and an equal number of revisions of economic forecast data, usually downwards.

Political and economic outlooks for 2013 appear little different to what had been expected for 2012, both at home and abroad, with many European countries continuing to face difficulty and uncertainty. Domestic inflation retains the ability to upset stability, particularly in these times of squeezed incomes. The low interest rate environment will continue to provide a challenge to savings organisations and maintaining a strong capital base remains a high priority for the Society.

On the regulatory front the "Twin Peaks" regulatory structure which was expected to be introduced in 2012 was put back to April 2013. The Financial Services Authority is being split into two new regulatory bodies, the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA). Most financial services organisations will fall within the jurisdiction of one of these bodies but, as an insurer, the Society will be required to report to both. It is anticipated that regulation from all quarters will become more, not less, intrusive and time will tell if the Society's members gain overall benefit from these changes.

The FSA's Retail Distribution Review (RDR) introduced a new set of rules on 31 December 2012. The RDR's aims were for consumers to be offered a transparent and fair charging system for the advice they receive, to be clear about the service they receive and for that advice to come from highly respected professionals. Critics of the initiative have claimed that the smaller investor will be priced out of the advice market and left to their own devices. The Society has adapted its distribution methods and now offers its products only on a non-advised basis, also referred to as execution-only. Whether RDR will have a positive or negative impact on savers and investors is another question that will be answered over time. What is certain, however, is that the Society will continue to encourage existing and potential members alike to plan for their own and their families' futures, and we shall drive ahead with our purpose of building the Society for the benefit of the members.

Railway Enginemen's Assurance Society Limited

MANAGEMENT COMMITTEE'S ANNUAL REPORT

BUSINESS REVIEW (continued)

Future developments (continued)

The solid platform we have established over many years is important to our members and we shall continue to work to expand our Depot Introducer network and increase the number of Area Representatives. We believe that the Society plays an important part in promoting and encouraging the savings ethos so keenly followed by our members within the railway industry.

We look forward to building on our proud 148 year history and will continue to help our members in providing for the future.

MANAGEMENT COMMITTEE

The Society is always looking to strengthen the composition of its Management Committee by recruiting those with the appropriate skills and a desire to serve in the best interests of the membership.

The names of the Management Committee members are shown on page 2. Changes during the year are detailed within the statement on corporate governance.

FIXED ASSETS

The changes in the Society's fixed assets are shown in note 9 of the financial statements.

MARGIN OF SOLVENCY

The Society had the required margin of solvency at 31st December 2012 as prescribed in the Prudential Reporting Rules set out in Chapter 4 of the Interim Prudential Sourcebook for Friendly Societies.

COMPLAINTS PROCEDURE

The Society aims to provide the highest possible level of service to its members. However, where a complaint arises, we operate a formal procedure for dealing with complaints and endeavour to resolve quickly and efficiently any that arise. A complaint that cannot be resolved through the Society's internal process can be referred to the Financial Ombudsman Service, details of which can be obtained from the Society's Registered Office. Complaints falling outside the Ombudsman Scheme will be handled in accordance with the Society's rules.

If members have concerns about the Society's business and consider that they have not been dealt with appropriately through the internal process they are encouraged to write to any member of the Management Committee. Correspondence should be marked "Strictly private and confidential" and addressed to the Committee member at the Society's main address.

THANKS AND APPRECIATION

The Committee remains indebted to our members for their continuing loyalty to the Society and to our hardworking introducers and representatives for promoting the Society's values in the workplace. One of our strengths is the commitment to providing an outstanding level of service and this is supported by the positive feedback received from our members in response to questionnaires sent out on a regular basis. The Society would not enjoy the level of success that it does without the commitment, effort and dedication of our staff. They take great pride in serving the membership and we have great pleasure in recording our thanks and appreciation.

Railway Enginemen's Assurance Society Limited

MANAGEMENT COMMITTEE'S ANNUAL REPORT

AUDITORS

A resolution will be proposed to reappoint Baker Tilly UK Audit LLP at the forthcoming AGM of the members. Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

Approved by the Management Committee on 15th April 2013
and signed on its behalf

G W Nash
Chairman

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

The Society is committed to best practice in Corporate Governance and, as a member of the Association of Financial Mutuals (AFM), it is required to follow the principles set out in the annotated Corporate Governance Code (the Code) for mutual insurers. The Code is updated regularly to reflect what is considered to be best practice and to provide a sound structure on which member organisations can both model and monitor their individual governance structures. The Code continues to evolve and both its development and monitoring are carried out by the AFM. The Society completes a detailed and lengthy questionnaire which is submitted annually to the AFM which, in turn, collates the information to form a collective submission to H M Treasury. A similar exercise will be undertaken for the current reporting year.

This report sets out how the principles of good governance have been adopted by the Society.

The Management Committee

The Society operates under the direction of the Management Committee, with the day-to-day running delegated to the Chief Executive and senior managers. The strategic direction of the Society, performance against annual and long-term plans and targets, monitoring of the business and reviewing performance of sub-committees remain within the remit of the Management Committee.

The Management Committee comprises nine members, all of whom are non-executive. The Code recommends that Management Committees should comprise a mix of executive and non-executive members. However, taking into account the scale and nature of the business, it is considered that the existing structure works well with the roles and responsibilities of Committee members and management remaining distinct. By invitation the Chief Executive and the senior managers attend all meetings of the Committee.

Details of the members of the Management Committee, Officers and Senior Management of the Society who have served during the year are as follows:

Grahame Nash	Age 64. Appointed 1985. Retired as Driver with Great Western Trains at Bristol. Currently Society Chairman. Qualified to FPC 2 level. Former Trustee of ASLEF.
Alan Edwards	Age 48. Appointed 2004. Driver with Northern Rail based at Sheffield. Currently Society Deputy Chairman. Qualified to FPC 1 level. Former School Governor.
Bill Goode	Age 52. Appointed 1995. Driver with London Midland Trains in Birmingham. Senior Independent Director. Qualified to FPC 2 level. Trustee of ASLEF.
Joe Goolamier	Age 67. Appointed 2002. Formerly Duty Resources Manager with WAGN based at Kings Cross, now retired. Qualified financial adviser.
Joe McGilvray	Age 54. Appointed 1988. Driver with Scotrail based at Yoker. Former Executive Committee Member of ASLEF.
Alan Rich	Age 64. Appointed 1998. Driver with GB Railfreight at Crewe. Qualified to FPC 2 level.
John Turner	Age 65. Appointed 1987. Formerly a driver with Northern Trains at Leeds, now retired. Qualified to FPC 1 level.
Joe McKenna	Age 39. Appointed 2006. Driver with Cross Country Trains based at Manchester. Law graduate. Qualified Solicitor.
Roger Frier	Age 65. Appointed December 2010. Chartered Banker. Retired friendly society chief executive. Trustee of Leeds Teaching Hospitals Charitable Foundation and formerly a consultant with Cazenove Capital Management.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

The Management Committee (continued)

Chief Executive
& Secretary:

Robert Leddington Age 61. Appointed 1999. Chartered Accountant and qualified financial adviser.

General Manager:

Victoria Herbert Age 41. Appointed 1999. Qualified financial adviser.

Finance Manager:

Jonathan Cox Age 59. Appointed 2002. Chartered Accountant and qualified financial adviser.

The Management Committee considers that its mix of skills, balance and completeness is appropriate to the requirements of the business.

Senior Independent Director

Bill Goode is the Senior Independent Director, having been appointed to the position in 2006. One aspect of this role, in line with the requirements of the Code, is to provide members with a point of contact other than the Chairman or Chief Executive. The nature of the Society is such that many members have access to Committee members through the workplace and much feedback is received through this channel. As stated earlier in the report, members having concerns about the Society's business are encouraged to write to any member of the Management Committee. Items should be addressed to the individual member of the Committee concerned, marked "Strictly private and confidential" and sent to the Society's address. The correspondence will be passed unopened to the Committee member.

Appointment and Reappointment of Members of the Management Committee

Members of the Management Committee of the Society are elected by the membership at Special District Meetings, held between the financial year end and the Annual General Meeting as required or at the Annual General Meeting. In addition, between Annual General Meetings the Committee has the power to co-opt other members. The size of the Committee is determined by the Society's rules and is currently within the range of a minimum of 6 and a maximum of 12.

The process for appointing new members to the Committee is determined by the Management Committee. The Management Committee does not consider that the use of external recruitment consultants is appropriate for the identification and selection of Management Committee members.

Members co-opted to the Committee are required to put themselves forward for election at the Annual General Meeting following their co-option. Appointments, initially for a three year period, are based on objective criteria and aimed at providing the overall balance of skills and experience necessary for an effective Committee. Each member of the Committee is required to seek re-election at regular intervals and at least once every three years. This aspect of governance is being reviewed currently by the AFM with a view to moving to annual re-election for all members of the Committee. The Society is considering the merits of such a move.

Roles of the Chairman and the Chief Executive

The roles of Chairman and Chief Executive are not held by the same person. The Chairman, who is elected annually by the Management Committee, is mainly responsible for leadership of the Committee, conduct of meetings and ensuring that it acts effectively whilst fully discharging its duties. The Chief Executive is responsible for the day-to-day management of the Society and implementing strategies and policies agreed by the Committee.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Chief Executive and Secretary

The Chief Executive and Secretary throughout the year was Robert Leddington. The Management Committee remains satisfied, based on the scale and nature of the business, that this combination of roles is not inappropriate.

Independence of Members of the Management Committee

The Code sets out circumstances that should be considered by a Management Committee in determining the independence of non-executive members of the Committee. Independence takes into account a Committee member's length of service, other business interests and commitments, character and judgement.

The Management Committee considers that its members are independent, including those who have served on the Committee for more than nine years. There are six members of the Committee who have served for terms of nine years or more and in all cases it is considered that this has not adversely influenced their judgement, integrity or independence. The experience, skill and knowledge acquired by each of them are believed to enhance the contribution they are able to make to the Society and to the membership. Opportunities to acquire financial services training have been grasped by members of the Committee with a number achieving success in industry recognised examinations. The nature and scale of the Society's operations are such that the loss of such experience would be to the detriment of the membership.

In order to open the matter for decision by the Society's members all Management Committee members who have served for more than nine years will put themselves forward annually for re-election.

Management Committee effectiveness

Each year all members of the Committee must meet the tests of fitness and propriety laid down by the Financial Services Authority. All Committee members are required to be registered with the Financial Services Authority as Approved Persons to enable them to undertake the Controlled Function of Committee member.

The Management Committee undertakes an annual evaluation of its performance as a Committee, the Management Committee members assess the effectiveness of the Chairman, and individual members of the Committee undertake a self-assessment of their performance and contribution. The evaluation process is reviewed regularly and is modified and updated to meet changing requirements.

The Management Committee meets without the Chief Executive and senior managers being present on a number of occasions each year. At least once each year Committee members also take the opportunity to meet without the Chairman present.

Members of the Committee have access to the Society's Secretary, who is responsible for ensuring that the Committee follows corporate governance processes. Independent external professional advice is also available to all Committee members, at the Society's expense, where they judge it to be appropriate in the discharge of their duties and responsibilities as Committee members.

The Society carries insurance that indemnifies members of the Management Committee and Officers to the extent permitted by law in respect of liabilities incurred as a result of their office.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Management Committee training

Members of the Management Committee participate in regular bespoke training programmes. These programmes are designed to address, amongst other issues, regulatory developments, product awareness, money laundering, data protection, corporate governance and Society specific matters. This training is developed by an independent Training & Compliance consultancy, Haven Risk Management, and is conducted in-house. In addition, members of the Management Committee are encouraged to participate in external seminars organised through our trade association, the AFM. For a number of years the Society has provided Management Committee members with access to the financial planning courses and examinations of the Chartered Insurance Institute and many successes have been recorded. This facility remains available to all Committee members. Additionally, presentations made by the Society's Actuary and by the Fund Managers are designed to further enhance Committee skills.

Management Committee meetings

The Management Committee meets at a frequency suitable to discharge its duties effectively. In 2012 the Committee met to conduct Society business on five occasions, including a 2-day event in June. A further 2 occasions each year are dedicated to training needs which, in 2012, had a particular focus on corporate governance changes and best practice. The meetings schedule will retain the flexibility to accommodate any changes to the volume, complexity or frequency of matters needing to be considered.

The Management Committee and sub-Committee have formal terms of reference which set out matters reserved for each body. Appropriate documentation is distributed prior to each meeting to all members of the Committee. The Chairman is responsible for ensuring that all Committee members receive accurate, timely and clear information. In the months between Committee meetings the Chairman meets with the Chief Executive.

Sub-Committee

The Audit & Risk Management Committee is tasked with assessing the audit needs of the Society and the arrangements for both internal and external audit, including recommendations to the Management Committee for the appointment and re-appointment of internal and external auditors. It reviews the adequacy of the Society's system of business control and, in particular, its arrangements for evaluating risks in accordance with its Risk Management Programme in relation to its current and future business. It also undertakes reviews of the Society's internal control procedures, the adequacy of the accounting records and accounting controls. The effectiveness of the internal audit function is reviewed including the scope of work undertaken by the internal auditors. The internal auditors are provided with unfettered access to the sub-Committee and its Chairman. Equally, the Chairman and the members of the sub-Committee have direct access to both the external and internal auditors

The sub-Committee also considers the independence of the external auditors, significant findings and recommendations arising from the external audit, and the Society's annual report and accounts. The Society's internal auditors and external auditors alike are able, at their own discretion or requirement, to attend meetings of the Audit & Risk Management Committee. The sub-Committee meetings held during the year were chaired by Joe Goolamier, the other members of the sub-Committee being Bill Goode, Joe McKenna and Joe McGilvray. Members of the Management Committee and the Society's management team attended by invitation. Additionally, during the year members of the sub-Committee attended audit planning and clearance meetings held between the management team and both the internal and external audit firms.

The terms of reference of the Audit & Risk Management Committee are obtainable from the Society's Secretary and are available on the Society's website.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Sub-Committee (continued)

Issues of Committee succession and remuneration warrant full discussion and agreement by all members of the Management Committee. Accordingly, responsibility for reviewing the structure, size and composition of the Management Committee, succession planning and the identification and assessment of candidates to fill Committee vacancies rests with the Management Committee. Similarly, staff remuneration levels are reviewed by the Management Committee and measured against available data of comparable appointments elsewhere within the financial services sector.

Attendance at meetings

Individual attendances at meetings during the year were as follows:

	Management Committee	Audit & Risk Management
Grahame Nash	9/9	
Bill Goode	6/9	1/2
Alan Edwards	7/9	
Joe Goolamier	9/9	2/2
Joe McGilvray	6/9	1/2
Joe McKenna	6/9	2/2
Alan Rich	7/9	
John Turner	9/9	
Roger Frier	9/9	
Robert Leddington*	9/9	2/2

* Robert Leddington, the Chief Executive, is not a member of the Management Committee but, together with other members of the management team, participated in meetings by invitation of the Chairman.

Relations with Members

The Society is fully committed to maintaining a strong relationship with its entire membership and encourages feedback and comment on the way it conducts its business. The majority of the Society's Management Committee operates within the environment from which the membership is drawn and has regular contact with many of them. They are directly aware of many of the issues affecting the membership, particularly with regard to employment, and actively seek members' comments, feedback and participation. Members are encouraged to attend the Annual General Meeting and notice is provided at least 20 working days in advance of the meeting. Members of the Management Committee and the Society's senior managers are available to answer relevant questions at the meeting. It is the Society's policy that each substantive issue is the subject of a separate resolution at the Annual General Meeting. The Society is keenly focused on the concept of Treating Customers Fairly and is proud of the strength of the relationship it has built up with the membership, which is fundamental to future success.

Internal Control

The Society remains committed to a regime of high standards of risk management and internal control. There is a process for identifying, evaluating and managing the significant risks faced by the Society. The Management Committee is responsible for the Society's system of internal control and, through the Audit & Risk Management Committee, reviews the effectiveness of such controls.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Internal Control (continued)

In providing assurances to the Management Committee, the Audit & Risk Management Committee reports on:

- the adequacy of the scope of the internal audit process
- internal audit findings and management responses
- the scope of the external audit
- the independence of the external auditor
- the findings of external audit
- the Society's process for the identification and management of significant risks

An independent firm of Chartered Accountants is engaged in providing internal audit services to the Society. Their programme of work is agreed in advance with the Audit & Risk Management Committee, to which they report their findings.

There is a clear organisational structure with defined authority limits and reporting mechanisms to the Management Committee, which supports a strong control environment. There is a monthly financial and operational reporting system that enables monitoring against annual and long-term budgets and business plans and the identification of variances which can be measured and reported upon. There are annual reports by the Actuarial Function Holder, who is independent of the Society, on the financial position of the long-term insurance business, the Society's insurance liabilities and solvency position.

The Audit & Risk Management Committee reports to the Management Committee and minutes of sub-Committee meetings are circulated to all members of the Management Committee.

Statement of Responsibilities of the Management Committee

Legislation requires the Management Committee to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society and of the surplus or deficit of the Society for that period. In preparing those financial statements, the Committee of Management is required to:

- a) select suitable accounting policies and then apply them consistently,
- b) make judgements and accounting estimates that are reasonable and prudent,
- c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Committee is responsible for keeping adequate 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 requirements of the Friendly Societies Act 1992 and the regulations made under it. It is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Committee is responsible for the maintenance and integrity of the corporate and financial information included on the Railway Enginemen's Assurance Society Limited website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Statement of Compliance with the annotated Corporate Governance Code

The Management Committee considers that throughout the year ended 31st December 2012, the Society has applied the relevant principles and complied with the relevant provisions of the annotated Corporate Governance Code issued by the Association of Mutual Insurers, except in respect of the following:

- the Committee does not comprise of a mix of executive and non-executive members.
- the positions of Chief Executive and Secretary are filled by the same person
- appointments to the Management Committee are not conducted through external search consultancies or through open advertising.

For the reasons explained in the full report the Management Committee does not consider these exceptions to be material taking into account the scale and nature of the organisation.

Approved by the Management Committee on 15th April 2013
and signed on its behalf

G W Nash
Chairman

Railway Enginemen's Assurance Society Limited

REMUNERATION REPORT

Committee membership brings with it a full-time responsibility. It requires the individuals to undertake research and training in order to ensure compliance with regulatory standards and to maintain the skills and experience necessary for safeguarding the interests of the Society's members. The remuneration of Management Committee members and the Society's staff is determined annually by the Committee and is subject to the approval of the Committee as a whole. No individual Committee member is involved in any decisions as to their own remuneration.

Management Committee members are provided with a daily attendance allowance for attending Committee meetings, training days and when they are required to represent the Society at business seminars and trade body conferences. For 2012 this was at the daily rate of £217 (2011: £207). Committee members are also paid a small annual fee which for the current tax year was at the following rates (previous tax year figures in brackets): Chairman - £1,655 (£1,575); Deputy Chairman - £1,400 (£1,335) and Committee members - £1,115 (£1,060). Travelling and subsistence allowances are paid where appropriate.

Management salaries are maintained at levels to enable the Society to attract, motivate and retain suitably qualified and committed staff. The Society does not operate long-term incentive schemes.

Fees, allowances, salary and benefits for 2012 were as follows:

	Fees and allowances £	Commission £	Salary £	Benefits £	Pension cost £	Total 2012 £
G W Nash	4,344	123	-	-	-	4,467
A Edwards	2,933	103	-	-	-	3,036
W C H Goode	2,427	994	-	-	-	3,421
J W Goolamier	3,318	-	-	-	-	3,318
A R McGilvray	3,527	40	-	-	-	3,567
J McKenna	2,891	-	-	-	-	2,891
A D Rich	2,710	209	-	-	-	2,919
J S Turner	2,921	788	-	-	-	3,709
R G Frier	3,296	-	-	-	-	3,296
R Leddington	-	-	86,572	3,550	15,439	105,561
	28,367	2,257	86,572	3,550	15,439	136,185

The comparative figures for 2011 were as follows:

	Fees and allowances £	Commission £	Salary £	Benefits £	Pension cost £	Total 2011 £
G W Nash	4,436	350	-	-	-	4,786
A Edwards	2,760	752	-	-	-	3,512
W C H Goode	1,667	1,722	-	-	-	3,389
J W Goolamier	2,540	-	-	-	-	2,540
A R McGilvray	3,574	80	-	-	-	3,654
J McKenna	2,488	-	-	-	-	2,488
A D Rich	2,540	483	-	-	-	3,023
J S Turner	2,540	830	-	-	-	3,370
R G Frier	2,340	-	-	-	-	2,340
R Leddington	-	-	84,005	3,550	12,253	99,808
	24,885	4,217	84,005	3,550	12,253	128,910

R Leddington, the Chief Executive, is not a member of the Management Committee but his remuneration is shown for completeness. Benefits represent the taxable benefit of a company vehicle.

Railway Enginemen's Assurance Society Limited

REMUNERATION REPORT

Some members of the Management Committee are also Depot Introducers for the Society and receive commission on policies sold. It is considered that the value of these payments does not impact the independence of the individual Committee members.

A separate resolution to accept this Remuneration Report will be put to the Society's members at the Annual General Meeting.

On behalf of the Management Committee on 15th April 2013

G W Nash
Chairman

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RAILWAY ENGINEEMEN'S ASSURANCE SOCIETY LIMITED

We have audited the financial statements on pages 18 to 32. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the Management Committee and auditor

The Management Committee's Responsibilities for preparing the Annual Report and the financial statements are set out in the Statement of the Management Committee's Responsibilities on page 13. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters prescribed by the Friendly Societies Act 1992

The Management Committee's Annual Report has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and the information given therein is consistent with the financial statements for the financial year.

Matters on which we are required to report by exception

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

- proper accounting records have not been kept; or
- the financial statements are 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.

BAKER TILLY UK AUDIT LLP

CHARLES FRAY (Senior Statutory Auditor)

For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor

Chartered Accountants

St Philips Point

Temple Row

Birmingham

B2 5AF

15 April 2013

Railway Enginemen's Assurance Society Limited

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 December 2012

	<i>Notes</i>	2012 £	2011 £
TECHNICAL ACCOUNT – LONG TERM BUSINESS			
INCOME:			
Earned premiums		4,039,180	3,918,661
<hr/>			
INVESTMENT INCOME	1	1,084,264	1,045,156
UNREALISED GAINS ON INVESTMENTS		53,842	952,898
<hr/>			
		1,138,106	1,998,054
<hr/>			
TOTAL INCOME		5,177,286	5,916,715
<hr/>			
EXPENDITURE:			
Claims incurred	2	3,839,581	3,737,963
Change in long term business provision	10	1,734,109	(1,098,891)
Provision for bonuses - reversionary	10	588,055	529,439
<hr/>			
		6,161,745	3,168,511
<hr/>			
NET OPERATING EXPENSES			
Acquisition costs		177,341	193,449
Administrative expenses	4	621,599	604,398
<hr/>			
		798,940	797,847
<hr/>			
TOTAL EXPENDITURE		6,960,685	3,966,358
<hr/>			
(SHORTFALL)/EXCESS OF INCOME OVER EXPENDITURE BEFORE TAXATION	3	(1,783,399)	1,950,357
<hr/>			
TAXATION	7	(20,859)	(117,154)
<hr/>			
TRANSFER (FROM)/TO FUND FOR FUTURE APPROPRIATIONS	10	(1,804,258)	1,833,203
<hr/> <hr/>			

All income and expenditure arises from continuing operations.

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Technical Account.

Railway Enginemen's Assurance Society Limited

BALANCE SHEET - ASSETS

31 December 2012

	<i>Notes</i>	2012 £	2011 £
INVESTMENTS	8		
Land and buildings		270,000	270,000
Other financial investments – long term fund		28,202,724	27,444,653
		<hr/>	<hr/>
		28,472,724	27,714,653
DEBTORS			
Debtors from direct insurance operations – Members		328,760	345,908
Other debtors		346	5,516
		<hr/>	<hr/>
		329,106	351,424
OTHER ASSETS			
Tangible fixed assets	9	29,331	5,533
Cash at bank and in hand		612,051	984,991
		<hr/>	<hr/>
		641,382	990,524
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		401,066	426,418
Other prepayments and accrued income		84,805	22,875
		<hr/>	<hr/>
		485,871	449,293
		<hr/>	<hr/>
		29,929,083	29,505,894
		<hr/> <hr/>	<hr/> <hr/>

Railway Enginemen's Assurance Society Limited

BALANCE SHEET - LIABILITIES

31 December 2012

	<i>Notes</i>	2012 £	2011 £
FUND FOR FUTURE APPROPRIATIONS	10	5,854,395	7,658,653
TECHNICAL PROVISIONS			
Long term business provision	10	23,268,972	21,005,424
Provision for bonuses	10	588,055	529,439
Claims outstanding		105,131	72,167
		<hr/>	<hr/>
		23,962,158	21,607,030
PROVISION FOR OTHER RISKS AND CHARGES			
Deferred taxation	7	-	3,487
CREDITORS			
Other creditors including taxation and social security	11	8,132	110,840
ACCRUALS AND DEFERRED INCOME		104,398	125,884
		<hr/>	<hr/>
		29,929,083	29,505,894
		<hr/> <hr/>	<hr/> <hr/>

Approved and authorised for issue by the Management Committee on 15 April 2013

G W Nash - Chairman

A Edwards - Deputy Chairman

R Leddington - Chief Executive & Secretary

Railway Enginemen's Assurance Society Limited

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of freehold property and quoted investments, and the actuarial valuation of the long term business provision, in accordance with UK Accounting Standards, the Statement of Recommended Practice issued by the Association of British Insurers and are presented in accordance with the Friendly Societies (Accounts and Related Provisions) Regulations 1994.

EARNED PREMIUMS

Earned premiums represent individual periodic member contributions due in the accounting period. All premiums are derived in the United Kingdom.

INVESTMENT INCOME

Investment income includes dividends, interest and gains and losses on the realisation of investments. Dividends are included as investment income on receipt and are grossed up for applicable tax credits. Fixed interest income and bank deposit interest are accounted for on an accruals basis. Income received in foreign currencies is translated at the rates ruling at the date of the transaction.

REALISED AND UNREALISED GAINS AND LOSSES ON INVESTMENTS

Realised gains and losses are calculated as the difference between net sales proceeds and the valuation at the previous balance sheet date or their purchase price if acquired during the year.

Unrealised gains and losses represent the net difference between the valuation of the investments at the year end, and their valuation at the previous balance sheet date or their purchase price, if acquired during the year.

CLAIMS

Claims payable on maturity are recognised when the claim becomes due for payment and on death are accounted for on notification. Disability claims and surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the long term business provision.

BONUSES

The provision for bonuses is released to the long term business provision when the bonus is declared by the Management Committee.

ACQUISITION COSTS

Acquisition costs comprise the amount of direct and indirect costs arising from the obtaining and processing of new business. Considered in the light of available future margins against which to offset acquisition costs that might be deferred to future periods, the amount that might be deferred is not material. All acquisition costs have therefore been recognised in the periods in which they have been incurred.

PENSION CONTRIBUTIONS

The Society contributes to staff personal pension plans. Contributions are charged to the Income and Expenditure Account on an accruals basis.

TAXATION

Taxation is provided at current rates in respect of the taxable element of the Society's business. As a Registered 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.

Railway Enginemen's Assurance Society Limited

ACCOUNTING POLICIES

INVESTMENTS

Quoted fixed interest and equity investments are valued at the closing year end mid-market values.

Loans secured by mortgages are stated at capital advanced less amounts repaid and provision for any potential losses.

Other loans, comprising policy loans, are stated at capital advanced less amounts paid and provision for any potential losses.

Freehold property is valued annually on an open market basis and no depreciation charged.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at historical cost less accumulated depreciation. Depreciation is provided on all tangible assets calculated to write down each asset to its estimated residual value evenly over its expected useful life, as follows:-

Fixtures, fittings and equipment	over 5 years
Motor vehicles	over 4 years

FUND VALUATION

The whole of the Society's assets and liabilities are subject to an annual actuarial valuation in accordance with the asset valuation rules set out in Appendix 4 of IPRU (FSOC) and section 46 of the Friendly Societies Act 1992. The valuation is carried out by Steve Dixon Associates LLP, the Society's consulting actuary. The Reserves and Technical Provisions in the financial statements including the Provision for Bonuses reflect the results of the valuation.

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Society's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in the tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax assets are recognised to the extent that they are recoverable. They are considered to be recoverable if it is more likely than not that there will be suitable taxable profits from which the future reversal of timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

CASH FLOW STATEMENT

Under Financial Reporting Standard 1 (revised) the Society is exempt from the requirement to prepare a cash flow statement on the grounds that all major cash flows arise from long term insurance business and are for the benefit of the long term funds.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

1	INVESTMENT INCOME	2012	2011
		£	£
	Income from investments:		
	Listed	1,054,368	1,044,414
	Mortgage interest	3,702	4,063
	Other interest receivable	72,414	66,555
		<hr/>	<hr/>
		1,130,484	1,115,032
	Net losses on realisation of investments	(46,220)	(69,876)
		<hr/>	<hr/>
		1,084,264	1,045,156
		<hr/> <hr/>	<hr/> <hr/>
2	CLAIMS INCURRED	2012	2011
		£	£
	Expenditure for the year comprises:		
	Claims for benefit:		
	Retired members (aged 65)	97,451	61,251
	(aged 60)	44,281	45,050
	Disabled members	52,521	51,237
	Deceased members	109,948	31,831
	Endowments	2,803,088	2,769,420
	Rebates	732,292	779,174
		<hr/>	<hr/>
		3,839,581	3,737,963
		<hr/> <hr/>	<hr/> <hr/>
3	(SHORTFALL)/EXCESS OF INCOME OVER EXPENDITURE BEFORE TAXATION	2012	2011
		£	£
	(Shortfall)/excess of income over expenditure before taxation is stated after charging/(crediting):		
	Depreciation	10,934	9,303
	Profit on disposal of tangible assets	(14,400)	-
	Auditor's remuneration:		
	Audit services	48,307	38,720
	Non-audit services	7,708	6,110
	Actuary's remuneration	40,480	48,800
		<hr/> <hr/>	<hr/> <hr/>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

4	ADMINISTRATIVE EXPENSES	2012 £	2011 £
	Salaries and national insurance	325,780	303,643
	Premium collection services	50,033	50,415
	Expenses of committees and agents	38,731	34,170
	General office expenses	82,857	94,292
	Professional fees	124,198	121,878
		<u>621,599</u>	<u>604,398</u>
5	EMPLOYEES	2012 No.	2011 No.
	The average monthly number of persons employed by the Society during the year was:		
	Administration	7	6
	Acquisition	1	1
		<u>8</u>	<u>7</u>
		2012 £	2011 £
	Staff costs for above persons:		
	Wages and salaries	303,517	285,602
	Social security costs	34,770	32,600
	Other pension costs	51,973	52,114
		<u>390,260</u>	<u>370,316</u>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

6 CHIEF EXECUTIVE AND COMMITTEE MEMBERS

Emoluments comprise a fee for committee responsibilities and an allowance for attending committee meetings.

The Chief Executive is not a member of the Management Committee. However, in accordance with Regulation 8 of the Friendly Societies (Accounts and Related Provisions) Regulations 1994, his remuneration is included in the figures below.

	2012 £	2011 £
Emoluments paid to members during the year:		
Fees and allowances	28,367	24,885
Salaries and benefits in kind	90,122	87,555
Pension costs	15,439	12,253
	<u>133,928</u>	<u>124,693</u>

The number of members whose emoluments (excluding pension contributions) fell within each of the bands below is as follows: -

	2012 No	2011 No
Not more than £5,000	9	9
More than £5,000 but not more than £90,000	-	1
More than £90,000 but not more than £95,000	1	-
	<u>10</u>	<u>10</u>

	2012 £	2011 £
Chairman:- Emoluments	4,344	4,436
	<u>4,344</u>	<u>4,436</u>

	2012 £	2011 £
The highest paid member:- Remuneration	86,572	84,005
Benefits in kind	3,550	3,550
	<u>90,122</u>	<u>87,555</u>
Emoluments	<u>90,122</u>	<u>87,555</u>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

7	TAXATION	2012 £	2011 £
	Current tax:		
	UK Corporation tax on profits of the period	-	100,807
	Irrecoverable tax on franked investment income	27,569	21,074
	Adjustment in respect of previous periods	(3,223)	-
	Total current tax	24,346	121,881
	Deferred tax:		
	Origination and reversal of timing differences		
	current year	1,258	(9,793)
	prior year	(4,745)	5,066
	Total deferred tax	(3,487)	(4,727)
	Tax on surplus on ordinary activities	20,859	117,154
		2012 £	2011 £
	DEFERRED TAX:		
	Movement in deferred tax for the period:		
	At 1 January	3,487	8,214
	Credit in profit and loss account	(3,487)	(4,727)
	At 31 December	-	3,487
		Provided	Unprovided
		2012	2011
		£	£
	Accelerated capital allowances and other		
	short term timing differences	3,998	26
	Unrealised loss on investments	19,306	47,318
	New business spreading	(50,654)	(7,899)
	Revaluation of investments	56,182	1,081
	Capital losses	(26,665)	(37,039)
	Excess management expenses	(2,167)	-
		-	3,487
		(4,137)	-

No deferred tax asset has been recognised for 2012 as the recoverability is dependent on off-settable taxable income and gains. There is sufficient uncertainty about the recovery of the potential deferred asset in the foreseeable future, which prevents this being recognised.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

8	INVESTMENTS	2012	2011
		£	£
	Land and buildings	270,000	270,000
		<u>270,000</u>	<u>270,000</u>

The freehold property, which is occupied by the Society for its own activities, was professionally valued by Silk Plant & Associates, Chartered Surveyors at 31 December 2012 on an open market basis. On a historical cost basis the property would have been included at a cost of £29,627 (2011: £29,627).

Other financial investments:

	Current value		Historic cost	
	2012	2011	2012	2011
	£	£	£	£
Listed:				
British Government and Local Authority stocks	15,773,510	13,448,398	15,092,014	12,607,168
British company equity capital	4,818,838	4,807,508	4,025,922	4,156,088
Unit & investment trusts	773,700	874,200	113,744	113,744
Eurobonds	5,428,243	6,692,222	5,055,022	6,448,795
	<u>26,794,291</u>	<u>25,822,328</u>	<u>24,286,702</u>	<u>23,325,795</u>
Unlisted:				
Loans secured by mortgages	46,491	55,797	46,491	55,797
Fixed term deposits	250,000	500,508	250,000	500,508
Other loans	1,111,942	1,066,020	1,111,942	1,066,020
	<u>28,202,724</u>	<u>27,444,653</u>	<u>25,695,135</u>	<u>24,948,120</u>

All listed investments are listed on a recognised investment exchange.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

9	TANGIBLE FIXED ASSETS	Motor vehicles £	Fixtures, fittings and equipment £	Total £
	Cost			
	1 January 2012	26,891	100,640	127,531
	Additions	28,169	6,563	34,732
	Disposals	(26,891)	(6,497)	(33,388)
		<hr/>	<hr/>	<hr/>
	31 December 2012	28,169	100,706	128,875
		<hr/>	<hr/>	<hr/>
	Depreciation			
	1 January 2012	26,891	95,107	121,998
	Charge for the year	7,042	3,892	10,934
	Eliminated on disposals	(26,891)	(6,497)	(33,388)
		<hr/>	<hr/>	<hr/>
	31 December 2012	7,042	92,502	99,544
		<hr/>	<hr/>	<hr/>
	Net book value			
	31 December 2012	21,127	8,204	29,331
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	31 December 2011	-	5,533	5,533
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

10 RESERVES AND TECHNICAL PROVISIONS

	Fund for future appropriations £	Long term business provision £	Provision for bonuses: Reversionary £
1 January 2012	7,658,653	21,005,424	529,439
Release of bonus provision	-	529,439	(529,439)
Provision for bonuses	-	-	588,055
Transfer from technical account	(1,804,258)	1,734,109	-
	<hr/>	<hr/>	<hr/>
31 December 2012	5,854,395	23,268,972	588,055
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The whole of the Society's assets and liabilities are subject to an annual actuarial valuation in accordance with the asset valuation rules set out in Appendix 4 of IPRU (FSOC) and Section 46 of the Friendly Societies Act 1992. The valuation is carried out by Mr S Dixon of Steve Dixon Associates LLP. The Reserves and Technical Provisions in the financial statements reflect the results of the valuation.

The provision for bonuses is released to the long term business provision when the bonus is declared by the Management Committee.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

11	CREDITORS	2012	2011
		£	£
	Payable within 12 months otherwise than by instalments:		
	Other creditors including taxation and social security	8,132	110,840
		<u> </u>	<u> </u>

12 PENSION CONTRIBUTIONS

The Society contributes to staff personal pension plans. Contributions are charged to the Income and Expenditure account on an accruals basis.

The pension charge for the year amounted to £40,999 (2011: £42,593).

13 APPOINTED ACTUARIAL FUNCTION HOLDER AND WITH-PROFITS ACTUARY AND REMUNERATION

The appointed Actuarial Function Holder and With-Profits Actuary of the Society is Mr Stephen Dixon, principal of Steve Dixon Associates LLP. The Society has requested him to furnish it with the particulars required in Section 77 of the Friendly Societies Act 1992. He has confirmed that he is not a member of the Society and that neither he nor his family, nor any of his partners, nor any corporate body of which he is a director or is controlled by him, has any financial or pecuniary interests in the Society, other than fees paid to Steve Dixon Associates LLP for actuarial services, which in 2012 totalled £40,480 (2011: £38,755).

14 TRANSACTIONS WITH COMMITTEE MEMBERS, OFFICERS AND THEIR CLOSE FAMILY MEMBERS

The following transactions have been undertaken as part of the normal business of the Society. These transactions were originally made on the same terms and conditions as applicable to other members of the Society, or on commercial terms.

	2012		2011	
	Number of persons	Amount £	Number of persons	Amount £
Life assurance policies:				
Premiums paid during the year	12	13,036	12	13,486
Total sum assured as at 31 December	12	170,295	12	175,986

Commission of £2,257 (2011: £4,217) has been paid to some Committee members in relation to their duties as Depot Introducers. Further details are provided in the Remuneration Report on Page 15.

This information is provided in order to meet the requirements of Financial Reporting Standard 8.

A register of transactions or arrangements made for a Committee Member or person connected with a Committee Member is maintained and is available for inspection at the Registered Office.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

15 FRS 27 DISCLOSURE RELATING TO LIABILITIES AND CAPITAL

The following summarises the capital resources and requirements of the Society as determined for UK regulatory purposes:

	2012 £'000	2011 £'000
Available capital resources in respect of life assurance business:		
Fund for future appropriations	5,854	7,659
Adjustment to assets onto a regulatory basis	(17)	(10)
Resilience reserve	(436)	(448)
Closure reserve	(994)	(1,323)
	<hr/>	<hr/>
Total available capital resources	4,407	5,878
Capital resources requirement	(1,089)	(1,013)
	<hr/>	<hr/>
Excess capital over regulatory requirements	3,318	4,865
	<hr/> <hr/>	<hr/> <hr/>

The Society maintains a single long term business fund.

The Society is a mutual organisation and as such, does not have any shareholders. As at 31 December 2012 the available capital resources were made up by the Fund for Future Appropriations (FFA). The FFA is the surplus accumulated that has not yet been allocated to policies. It forms the working capital of the Society and is available to meet risk and capital requirements, as well as any uncertain additional liabilities that may arise in the future. The Society is required to hold sufficient capital to meet the minimum capital requirements determined in accordance with FSA regulations.

MOVEMENT IN CAPITAL RESOURCES

The movement over 2012 is summarised below:

	2012 £'000
Opening capital resources	5,878
Change in liability valuation assumptions	(1,711)
Provision for bonus	(588)
Investment surplus	683
Claims surplus	66
Change in closure reserve	329
Expense surplus	192
Net new business and other	(442)
	<hr/>
Balance at 31 December 2012	4,407
	<hr/> <hr/>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

15 FRS 27 DISCLOSURE RELATING TO LIABILITIES AND CAPITAL (continued)

The assumptions used in valuing the liabilities are as determined by the Management Committee having regard to the advice of the Actuarial Function Holder.

These include:

Expenses of management: An implicit allowance of 20% of the future gross premiums.

Closure reserve: A closure reserve of £993,890 has been included in the valuation as a provision to meet the additional future costs assuming the Society were to close to new business 12 months after the valuation date.

Resilience reserve (see note below) A resilience reserve of £436,036 has been included in the valuation as a provision against the risk of a fall in the current market value of the assets.

Provision for bonus: A provision of £588,055 has been included to allow for the expected cost of the 2012 bonus declaration.

Taxation: The valuation rate of interest for taxable business allows for the incidence of future corporation tax. Thus, no additional reserve has been included in the valuation.

Mortality and disablement: The rate of mortality for Assured Lives aged 17 or over is 90% of the AMC00 Ultimate Table for Assured Lives, while the rate of disablement is 120% of the rates derived from the Society's own experience. For children the rate of mortality is 60% of ELT15.

Interest: A rate of interest of 1.5% per annum for tax exempt business and 1.2% for taxable business has been used.

Resilience Reserve:

Two scenarios of future changes in the value of assets have been tested in order to determine whether a resilience reserve should be established in accordance with IPRU (FSOC) Appendix 5, 16. The scenarios have been made up as a combination of the following potential occurrences:

- a fall in the market value of equities of 10% combined with a 0.46% drop in bond yields.
- a fall in the market value of equities of 10% combined with a 0.46% rise in bond yields.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

15 FRS 27 DISCLOSURE RELATING TO LIABILITIES AND CAPITAL (continued)

Sensitivity of the FFA:

The capital position is sensitive to changes in market conditions, which may affect the value of assets and/or liabilities. It is also sensitive to assumptions and experience relating to morbidity and mortality, and expenses.

The most significant current and potential risks are considered to be:

Market risk – the risk of losses arising from adverse changes in the value of assets and the resulting reduction in the FFA.

Morbidity and mortality risk – the risk that a significant and prolonged increase in claims experience will result in the strengthening in the statutory valuation basis and an increase in the value of liabilities.

Expense risk – the risk that the level of the Society's expenses increases compared to the volume of business in force and/or higher expense inflation in respect of the costs of administering the business. This would increase the value of the liabilities resulting in a weaker FFA. If the Society's capital, represented by the FFA, were to weaken then the level of future bonuses may be restricted.

Risk management:

The duties of the Audit & Risk Management Committee include reviewing the adequacy of the Society's system of business control and, in particular, its arrangements for evaluating risks in accordance with the Risk Management Programme in relation to its current and future business. Additionally, the Society uses its Financial Condition Report to monitor current and potential risks that could affect its solvency adversely. These regular reviews enable the Society to take appropriate action to mitigate and manage the impact of these risks.