

Railway Enginemen's Assurance
Society Limited

FINANCIAL STATEMENTS

for the year ended

31 December 2013

Railway Enginemen's Assurance Society Limited

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Railway Enginemen's Assurance Society Limited

OFFICERS, ADVISERS AND REGISTERED OFFICE

MANAGEMENT COMMITTEE

J W Goolamier Chairman (appointed 24 June 2013)
A Edwards Deputy Chairman
R G Frier
J McKenna
A D Rich
J S Turner
L P Davies

CHIEF EXECUTIVE AND SECRETARY

R Leddington FCA

REGISTERED OFFICE

727 Washwood Heath Road
Ward End
Birmingham
B8 2LE

AUDITORS

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

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

SOLICITORS

Thrings LLP
The Paragon
Counterslip
Bristol
BS1 6BX

BANKERS

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

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

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

INVESTMENT MANAGERS

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

INTERNAL AUDITORS

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

THE SOCIETY IS:

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

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 2013. 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 the Society has achieved a steady performance throughout the year. While the economy has only recently shown a glimmer of recovery from the depths of recession in which it has languished during the previous five years the Society has achieved another year of heartening levels of new business, management costs being contained and a strong capital base.

The UK economy has seen little growth over the last three years and there is a continuing focus on escalating living costs whilst incomes are generally failing to keep pace. The Eurozone countries continue to be plagued by depressed economic conditions and high levels of unemployment. The United States has remained subdued in growth terms and positive news has been sparse.

The main focus within the financial services sector has been the increased activity in the mortgage market but there has been little in the way of encouraging news for savers with interest rates continuing at historically low levels. The savings market has continued to use headline interest rates to bring in new business but often these sweeteners are for relatively brief introductory periods before reverting to minimal levels. There have continued to be operational and cultural issues within banks and, unfortunately, much of this has served to create a jaundiced view of the wider financial services sector. Loss of consumer trust has been reflected by the high level of complaints across the banking sector in particular although it has to be recognised that claims companies share some of the responsibility for much of the speculative activity brought about with PPI claims. In contrast the Society has worked very hard to maintain a high level of customer service and customer satisfaction and will always strive to act in the wider interests of the membership. Our success in this aspect remains an important measure of the Society's performance.

Although economic conditions have continued to be challenging the Society is fortunate to have a Membership with a strong ethic of providing for the future for themselves and for their families. Our aim continues to be to add to the membership and to build on this strong base.

Membership

The Society maintains its aim of keeping things simple. At the beginning of the year the Retail Distribution Review undertaken by the FSA introduced new rules relating to the provision of advice in financial services and transparency within charging structures. Ahead of the implementation of the new regime the Society took the decision that it would offer its products on a non-advised basis only. Our structure of Depot Introducers and Area Representatives has been maintained but with no advice being

Railway Enginemen's Assurance Society Limited

MANAGEMENT COMMITTEE'S ANNUAL REPORT

BUSINESS REVIEW (continued)

Membership (continued)

offered or provided. We have experienced a full year operating under the new rules and we are encouraged that we have seen levels of new business matching those achieved in 2012. Whatever the changes in rules and regulations we strive to put our members and their interests at the forefront of what we do and remain committed to treating customers fairly.

We have continued to add to our Depot Introducer network throughout the year and each new appointment brings with it a keen enthusiasm to promote the Society in a new location. We shall pursue this expansion of the network to increase our coverage across the country. Our Area Representatives have continued with their success of bringing in new members and we are ever looking towards developing new regions where at present we have a more limited exposure.

In the year, 2,473 new policies were admitted, a small increase of 0.9% from that achieved in 2012. These policies accounted for combined new sums assured of £6.3m against the previous year's £6.1m.

Policies Summary	2013	2012
Number of policies at 31 December	17,923	17,668
Number of members	4,792	4,855
Number of new policies	2,473	2,451
New sums assured	£6.3m	£6.1m

Premiums earned for the year increased by 2.1% to £4,124,071 compared to the £4,039,180 achieved in 2012.

Claims

Claims totalling £3,748,526 were paid out during the year, a small reduction from the £3,839,581 paid in 2012. 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 equities finishing the year strongly whereas fixed interest stocks saw declines in the last quarter. Fixed interest yields remained subdued throughout the year.

The Society has maintained a cautious investment strategy and throughout the year a strong solvency position was maintained whilst generating a steady investment income stream. Investment disposals during the year resulted in losses of £443,903 against losses of £46,220 from disposals in 2012. At the end of 2013 there were unrealised losses of £1,089,581 in the value of investments held. The market value of the investment holdings at the end of 2013 was £27,138,972 compared to £28,202,724 at the end of the previous year. Bank balances were £753,680 at the end of the year against £612,051 held at the end of 2012. Investment income of £1,157,503 was generated during the year, a marginal increase over the £1,130,484 produced in 2012.

We remain cautious of the volatility of investment markets and continue to work closely with our actuary and our investment adviser to safeguard members' funds whilst aiming to generate maximum investment returns.

Railway Enginemen's Assurance Society Limited

MANAGEMENT COMMITTEE'S ANNUAL REPORT

BUSINESS REVIEW (continued)

Net Operating Expenses

The Society strives 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 it appears that this pattern is likely to continue into the future.

Year	Earned Premiums	Increase over previous year	Net Operating Costs	Increase over previous year	Net operating costs/Earned premiums
	£'000	%	£'000	%	%
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
2013	4,124	2.10	814	1.88	19.74

* Excludes exceptional income of £58,760.

Future developments

Initial indicators point to sustainable growth to return in the coming year although this is expected to be relatively low key. The global outlook continues to look fragile with some European economies having yet to properly emerge from recession. Concern remains that the outlook for the coming year and beyond will continue to be challenging. The domestic and global economies alike appear to reel from one set of problems to another with each new glimmer of recovery being quickly dashed by events unfolding elsewhere. Despite the false dawns there remains an overwhelming wish for a return to stability and a steady, sustainable improvement.

Political and economic events in 2014 will no doubt provide the catalyst for market swings to continue and the Society will maintain its focus on providing a steady and safe environment for its members' funds. The low interest rate environment will continue to bring challenges to savings organisations and the high priority the Society attaches to maintaining its strong capital base will remain a prime focus.

The "Twin Peaks" regulatory structure came into being in April 2013 with the Society now under the dual regulation of the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA). The reporting requirements of the new structures are still in their early days and it is hoped that they will settle down relatively quickly with a minimum of duplication between the two bodies. We have already witnessed the more intrusive approach advocated by the regulators, evidenced by the levels of fines being levied against organisations and individuals failing to act within the regulations.

There has been a renewal of activity on the introduction of the Solvency II Directive. This project, which focuses on capital requirements and risk assessment, has been many years in the making and as recently as September 2013 there were questions as to whether or not it would become regulation. A flurry of European activity has seen the project return to the forefront and all except the very smallest of insurers

Railway Enginemen's Assurance Society Limited

MANAGEMENT COMMITTEE'S ANNUAL REPORT

BUSINESS REVIEW (continued)

Future developments (continued)

will be required to comply. It is a considerable exercise for the Society to undertake and the costs and resources required to implement it will be substantial.

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 culture so keenly followed by our members within the railway industry.

The Society's long history is a matter of great pride to us and we shall continue to build on this as we help our members in providing for their futures.

MANAGEMENT COMMITTEE

The Society is always looking to strengthen the composition of its Management Committee by recruiting those with the appropriate skills and a strong 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 2013 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. This will be passed on, unopened, to the Committee member concerned.

Railway Enginemen's Assurance Society Limited

MANAGEMENT COMMITTEE'S ANNUAL REPORT

THANKS AND APPRECIATION

The Committee continues to be 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. Our strength of commitment in providing an outstanding level of service is supported by the positive feedback received from our members in response to questionnaires sent out on a regular basis. This support is something that we shall never take for granted. The Society would not enjoy the level of success that it does without the continuing 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.

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 2014
and signed on its behalf

J W Goolamier
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 its development, application and monitoring are carried out by the AFM. The Society completes a detailed and lengthy online questionnaire which is submitted annually to the AFM which, in turn, collates the information to form a collective submission to H M Treasury.

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 seven 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:

Joe Goolamier	Age 68. Joe was appointed to the Management Committee in 2002. He is retired from his role as Duty Resources Manager with WAGN operating at Kings Cross. Joe holds the full FPC qualification and previously chaired the Audit & Risk Management sub-Committee. He stood down from this role when he was elected as Chairman of the Society on 24 June 2013 following the retirement of Grahame Nash.
Alan Edwards	Age 49. Alan joined the Committee in 2004 and is currently the Society's Deputy Chairman. He also serves as the Senior Independent Director. During the year he joined the Audit & Risk Management sub-Committee. He is a driver with Northern Rail based at Sheffield, holds FPC 1 level and is a former school governor.
Lee Davies	Age 46. Lee was co-opted to the Management Committee on 15 April 2013, being formally elected by the Members at the Annual General Meeting on 24 June 2013. Lee is qualified to FPC 1 level and is a driver with Cross Country operating out of Newcastle. He has also served as a school governor.
Roger Frier	Age 66. Roger was appointed to the Management Committee in 2010. He is a Chartered Banker and is retired from his role as Chief Executive of a northern friendly society having spent his career in mutual financial services organisations. He is also a former consultant with Cazenove Capital Management. He is currently a Trustee of Leeds Teaching Hospitals Charitable Foundation and Chairman of the With Profits Committee of Healthy Investment. During the year Roger was appointed to the Audit & Risk Management sub-Committee.

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CORPORATE GOVERNANCE REPORT

The Management Committee (continued)

Joe McKenna	Age 40. Joe joined the Management Committee in 2006 and is a driver with Cross Country Trains operating out of Manchester. Joe is a law graduate and a qualified solicitor. He is a Director of Richmond House Management Company (Aigburth) Limited. During the year he was appointed as Chairman of the Audit & Risk Management sub-Committee.
Alan Rich	Age 65. Alan was appointed to the Management Committee in 1998. He is a driver with GB Railfreight based at Crewe and is qualified to FPC 2 level.
John Turner	Age 66. John is a former driver with Northern Trains based at Leeds and has served on the Management Committee since 1987. He is qualified to FPC 1 level.

Grahame Nash retired from the Management Committee on 24 June 2013. He had served on the Committee since 1985 and had been the Society's Chairman since 1998. Throughout his time with the Enginemen's he had witnessed dramatic changes in the regulatory structure of financial services and helped steer the Society through the many challenges that it encountered. The Management Committee is indebted to Grahame for the effort, enthusiasm and commitment he has put into his roles with the Society over these many years.

Sadly, Joe McGilvray passed away on 25 May 2013 at the age of 54. Joe had served on the Committee since 1988 and was an avid supporter of the Society and its values. He had been our Depot Introducer at Glasgow for many years and had recently taken on the role at Yoker following his transfer there. He was a stalwart within ASLEF, having served at national level on the Executive Committee from 2001 to 2005. It had been planned that Joe would take over as Society Chairman, a challenge he was looking forward to but, sadly, it was not to be. His debating skills are greatly missed and his passing is a great loss to the Society.

Bill Goode resigned from the Committee on 28 May 2013. Bill was appointed to the Committee in 1995. A driver with London Midland Trains operating out of Birmingham, he served as Senior Independent Director of the Society up until his resignation and was also a member of the Audit & Risk Management sub-Committee. Bill's workplace and union commitments, and his role as ASLEF Trustee, made increasing demands on his availability and it was with regret that he resigned from his role on the Management Committee. Bill was always keen to debate and challenge and he made a significant contribution to the Society over many years.

Chief Executive & Secretary:

Robert Leddington Age 62. Appointed 1999. Chartered Accountant and qualified financial adviser.

General Manager:

Victoria Herbert Age 42. Appointed 1999. Qualified financial adviser.

Finance Manager:

Lynsey Inglis Age 27. Appointed 2013. Finance graduate. Chartered Accountant. Lynsey succeeded Jon Cox as Finance Manager following his retirement in April 2013.

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

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

The Management Committee (continued)

Senior Independent Director

Alan Edwards is the Senior Independent Director, having been appointed to the position in June 2013. 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.

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.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Independence of Members of the Management Committee (continued)

The Management Committee considers that its members are independent, including those who have served on the Committee for more than nine years. There are four members of the Committee who have served for terms of nine years or more, 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.

The Code states that the Chairman on appointment should meet specific independence criteria. Joe Goolamier was elected as Chairman during the year, having been appointed to the Committee in 2002. Although his length of service exceeds nine years he is considered independent in both his judgement and integrity.

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 competency in the role laid down by the regulators. All Committee members are required to be registered with the Prudential Regulation Authority and the Financial Conduct 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.

On a number of occasions each year the Management Committee meets without the Chief Executive and senior managers being present. 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.

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 the Association of Financial Mutuals. 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

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Management Committee training (continued)

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 2013 the Committee met to conduct Society business on five occasions, including a 2-day event in June. A further day was dedicated to training needs which, in 2013, focused on corporate governance changes and best practice. The meetings schedules 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.

Audit & Risk Management sub-Committee

The main responsibilities of the Audit & Risk Management sub-Committee are to:

- review the effectiveness of the Society's financial reporting,
- review the system of business control,
- review the arrangements for identifying and evaluating risks in relation to its current and future business in accordance with the Risk Management Programme,
- monitor the effectiveness of the external audit process including a review of the external auditors' appointment, fees and independence,
- monitor the role and effectiveness of the internal audit function including the relationship with the internal auditors,
- make recommendations to the Management Committee on the appointment and reappointment of the external auditors

The Audit & Risk Management sub-Committee met twice during the year and those meetings were also attended by the senior management. On one occasion the external auditors were present and on both occasions representatives from the internal audit firm attended. Additionally, members of the sub-Committee have attended clearance meetings held separately with the internal and the external auditors. Members of the sub-Committee have also taken the opportunity to meet with the external auditors at their offices, independently of the senior management. There were no issues arising from any of these meetings that warranted being brought before the Management Committee. The sub-Committee has unfettered access to both the internal and external auditors and, equally, the audit firms have open access to the sub-Committee and the Management Committee.

In addition to monitoring the external audit from the outset of the planning stage the sub-Committee also considers the significant findings and recommendations arising from the audit of the Society's annual report and accounts. Any issues raised are discussed at both the clearance meeting and the subsequent meeting of the sub-Committee. The independence of the external audit function is monitored by the sub-Committee. The taxation department of the external audit firm undertakes an annual review of the corporation tax computations produced by the Society but this non-audit work is not considered by the sub-Committee to impact on the objectivity of the external auditors.

The primary area of judgement considered by the sub-Committee in relation to the 2013 financial statements and discussed with the external auditors during the year was the Actuarial Valuation. During

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CORPORATE GOVERNANCE REPORT

Audit & Risk Management sub-Committee (continued)

the year the sub-Committee received and reviewed reports in relation to the basis and assumptions regarding the calculation of the long term business provision. The sub-Committee considers all valuation reports in detail and ensures any changes in assumptions or judgements are explained to their satisfaction.

It has been confirmed that no significant issues have been raised by either the external or internal auditors. Following this the sub-Committee are satisfied that no significant issues need to be reported to the Management Committee.

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 sub-Committee.

The sub-Committee composition underwent changes during the year brought about by the changes in the membership of the Management Committee. Joe Goolamier, who had previously chaired the sub-Committee, was appointed as Society Chairman, leaving a vacancy within the sub-Committee. Joe McKenna was subsequently elected to take on this role. With the death of Joe McGilvray and the resignation of Bill Goode, both of who were members of the sub-Committee, Roger Frier and Alan Edwards were elected to fill those vacancies. It is considered that the members of the sub-Committee possess the necessary mix of skills and knowledge of the Society that will enable them to exercise appropriate judgements and bring challenge and debate to issues as appropriate.

The detailed aspects of the oversight role of the Audit & Risk Management sub-Committee in regards to internal control are set out later in this report.

The terms of reference of the Audit & Risk Management sub-Committee are available on the Society's website.

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	4/4	-
Bill Goode	1/2	1/1
Alan Edwards	8/9	1/1
Joe Goolamier	7/9	0/1
Joe McGilvray	2/2	1/1
Joe McKenna	9/9	2/2
Alan Rich	8/9	-
John Turner	9/9	-
Roger Frier	8/9	1/1
Lee Davies	6/7	-
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.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

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 remains committed to dealing with its members fairly and appropriately. We are proud of the strength of the relationship we have built up with the membership, which we recognise as fundamental to Society's 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 sub-Committee, reviews the effectiveness of such controls.

In providing assurances to the Management Committee, the Audit & Risk Management sub-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 sub-Committee, to which they report their findings.

There is a clear organisation 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 sub-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 Management Committee is required to:

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Statement of Responsibilities of the Management Committee (continued)

- a) select suitable accounting policies and then apply them consistently,
- b) make judgements 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 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 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 confirms, to the best of its knowledge the annual report and accounts provide a fair, balanced and understandable view of the Society's financial position and the Business Review contained in the annual report provides a fair evaluation of the Society's performance and development during the year.

In determining whether the Society's financial statements can be prepared on a going concern basis the Committee considered the business activities of the Society, alongside factors that could affect its performance in the future. As at the date of this report the Committee have a reasonable expectation that the Society has adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

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.

Statement of Compliance with the annotated Corporate Governance Code

The Management Committee considers that throughout the year ended 31st December 2013, 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 2014
and signed on its behalf

J W Goolamier
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 2013 this was at the daily rate of £228 (2012: £217). 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 - £1,740 (£1,655); Deputy Chairman - £1,470 (£1,400) and Committee members - £1,170 (£1,115). 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 2013 were as follows:

	Fees and allowances £	Commission £	Salary £	Benefits £	Pension cost £	Total 2013 £
G W Nash (1)	2,162	-	-	-	-	2,162
A Edwards	2,924	248	-	-	-	3,172
W C H Goode (2)	767	322	-	-	-	1,089
J W Goolamier (3)	4,079	71	-	-	-	4,150
A R McGilvray (4)	1,973	-	-	-	-	1,973
J McKenna	3,638	-	-	-	-	3,638
A D Rich	2,393	-	-	-	-	2,393
J S Turner	2,787	245	-	-	-	3,032
R G Frier	3,308	-	-	-	-	3,308
L P Davies (5)	1,944	493	-	-	-	2,437
R Leddington	-	-	90,862	3,550	16,211	110,623
	25,975	1,379	90,862	3,550	16,211	137,977

(1) Chairman until his retirement 24 June 2013

(2) Resigned 28 May 2013

(3) Appointed Chairman 24 June 2013

(4) Died 25 May 2013

(5) Appointed 15 April 2013

The comparative figures 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

Railway Enginemen's Assurance Society Limited

REMUNERATION REPORT

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.

Some members of the Management Committee are also Depot Introducers for the Society and receive commission on policies sold. It is considered that the relatively insignificant 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

J W Goolamier
Chairman
15th April 2014

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

We have audited the financial statements on pages 20 to 34. 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 14. 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 Financial Reporting Council's website at [http://www.frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Scope-of-audit/UK-Private-Sector-Entity-\(issued-1-December-2010\).aspx](http://www.frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Scope-of-audit/UK-Private-Sector-Entity-(issued-1-December-2010).aspx).

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 2013 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

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 accounting records and 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:

Under the Friendly Societies Act 1992 we are required to report to you if, in our opinion:

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

Under the ISAs (UK and Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:

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

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

In accordance with our instructions from the Society we review whether the Report on Corporate Governance reflects the Society's compliance with nine provisions of the Annotated UK Corporate Governance Code specified by the Association of Financial Mutuals.

Our assessment of risks of material misstatement

We identified the following risk as being that which had the most significant impact on our audit strategy and set out below how this risk was addressed by the scope of our audit:

The risk:

- the valuation of the long term business provision

The long term business provision is a significant and complex element of the financial statements and involves a significant degree of judgement in its calculation. The Society is advised on the actuarial matters, including the determination of the long term business provision by the Actuarial Function Holder. To assist the Management Committee in their consideration of this and other actuarial matters, the Actuarial Function Holder prepares a series of reports, including one regarding the assumptions and methodology for the actuarial valuation at 31 December 2013.

Our response:

For audit purposes, we appointed an independent Reviewing Actuary, as an expert, to assist us in our consideration of the long term business provision and related disclosures in the financial statements, and to review the work of the Actuarial Function Holder.

With the assistance of the Reviewing Actuary, we have reviewed the Actuarial Function Holder's reports, reconfirmed our understanding of the basis of the determination of the long term business and assessed the appropriateness of the valuation methodology and the key assumptions, particularly around the valuation interest rate. We have also assessed the competence, capabilities and objectivity of the Actuarial Function Holder and considered the competence, capabilities and objectivity of the Reviewing Actuary. We have also reviewed the disclosures relating to liabilities and capital as set out in Note 15.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £240,000, which was not changed during the course of our audit.

We agreed with the Management Committee that we would report to them all unadjusted differences in excess of £5,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The Society is a single entity, subject to local statutory audit, and our audit work was designed to address the risks of material misstatements identified to the level of materiality indicated above.

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 2014

Railway Enginemen's Assurance Society Limited

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 December 2013

	<i>Notes</i>	2013 £	2012 £
TECHNICAL ACCOUNT – LONG TERM BUSINESS			
INCOME:			
Earned premiums		4,124,071	4,039,180
<hr/>			
INVESTMENT INCOME	1	713,600	1,084,264
UNREALISED (LOSSES)/GAINS ON INVESTMENTS		(1,089,581)	53,842
<hr/>			
		(375,981)	1,138,106
<hr/>			
TOTAL INCOME		3,748,090	5,177,286
<hr/>			
EXPENDITURE:			
Claims incurred	2	3,748,526	3,839,581
Change in long term business provision	10	(1,840,040)	1,734,109
Provision for bonuses - reversionary	10	573,215	588,055
<hr/>			
		2,481,701	6,161,745
<hr/>			
NET OPERATING EXPENSES			
Acquisition costs		181,067	177,341
Administrative expenses	4	633,266	621,599
<hr/>			
		814,333	798,940
<hr/>			
TOTAL EXPENDITURE		3,296,034	6,960,685
<hr/>			
EXCESS/(SHORTFALL) OF INCOME OVER EXPENDITURE BEFORE TAXATION	3	452,056	(1,783,399)
<hr/>			
TAXATION	7	(24,025)	(20,859)
<hr/>			
TRANSFER TO/(FROM) FUND FOR FUTURE APPROPRIATIONS	10	428,031	(1,804,258)
<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 2013

	<i>Notes</i>	2013 £	2012 £
INVESTMENTS	8		
Land and buildings		270,000	270,000
Other financial investments – long term fund		27,138,972	28,202,724
		<hr/>	<hr/>
		27,408,972	28,472,724
DEBTORS			
Debtors from direct insurance operations – Members		337,054	328,760
Other debtors		294	346
		<hr/>	<hr/>
		337,348	329,106
OTHER ASSETS			
Tangible fixed assets	9	19,417	29,331
Cash at bank and in hand		753,680	612,051
		<hr/>	<hr/>
		773,097	641,382
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		465,609	401,066
Other prepayments and accrued income		24,814	84,805
		<hr/>	<hr/>
		490,423	485,871
		<hr/>	<hr/>
		29,009,840	29,929,083
		<hr/> <hr/>	<hr/> <hr/>

Railway Enginemen's Assurance Society Limited

BALANCE SHEET - LIABILITIES

31 December 2013

	<i>Notes</i>	2013 £	2012 £
FUND FOR FUTURE APPROPRIATIONS	10	6,282,426	5,854,395
TECHNICAL PROVISIONS			
Long term business provision	10	22,016,987	23,268,972
Provision for bonuses	10	573,215	588,055
Claims outstanding		38,387	105,131
		<hr/>	<hr/>
		22,628,589	23,962,158
PROVISION FOR OTHER RISKS AND CHARGES			
Deferred taxation	7	-	-
CREDITORS			
Other creditors including taxation and social security	11	6,742	8,132
ACCRUALS AND DEFERRED INCOME		92,083	104,398
		<hr/>	<hr/>
		29,009,840	29,929,083
		<hr/> <hr/>	<hr/> <hr/>

Approved and authorised for issue by the Management Committee on 15 April 2014

J W Goolamier - 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 2013

1	INVESTMENT INCOME	2013 £	2012 £
	Income from investments:		
	Listed	1,069,118	1,054,368
	Mortgage interest	14,331	3,702
	Other interest receivable	74,054	72,414
		1,157,503	1,130,484
	Net losses on realisation of investments	(443,903)	(46,220)
		713,600	1,084,264
2	CLAIMS INCURRED	2013 £	2012 £
	Expenditure for the year comprises:		
	Claims for benefit:		
	Retired members (aged 65)	95,286	97,451
	(aged 60)	105,424	44,281
	Disabled members	129,213	52,521
	Deceased members	47,346	109,948
	Endowments	2,527,313	2,803,088
	Rebates	843,944	732,292
		3,748,526	3,839,581
		3,748,526	3,839,581
3	EXCESS/(SHORTFALL) OF INCOME OVER EXPENDITURE BEFORE TAXATION	2013 £	2012 £
	Excess/(shortfall) of income over expenditure before taxation is stated after charging/(crediting):		
	Depreciation	11,029	10,934
	Profit on disposal of tangible assets	-	(14,400)
	Auditor's remuneration:		
	Audit services	44,672	48,307
	Non-audit services	3,480	7,708
	Actuary's remuneration	60,798	40,480
		111,979	102,929

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

4	ADMINISTRATIVE EXPENSES	2013 £	2012 £
	Salaries and national insurance	307,848	325,780
	Premium collection services	47,025	50,033
	Expenses of committees and agents	36,109	38,731
	General office expenses	103,701	82,857
	Professional fees	138,583	124,198
		<u>633,266</u>	<u>621,599</u>
5	EMPLOYEES	2013 No.	2012 No.
	The average monthly number of persons employed by the Society during the year was:		
	Administration	6	7
	Acquisition	1	1
		<u>7</u>	<u>8</u>
		2013 £	2012 £
	Staff costs for above persons:		
	Wages and salaries	290,921	303,517
	Social security costs	32,867	34,770
	Other pension costs	51,710	51,973
		<u>375,498</u>	<u>390,260</u>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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.

	2013 £	2012 £
Emoluments paid to members during the year:		
Fees and allowances	25,975	28,367
Salaries and benefits in kind	94,412	90,122
Pension costs	16,211	15,439
	<u>136,598</u>	<u>133,928</u>

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

	2013 No	2012 No
Not more than £5,000	10	9
More than £90,000 but not more than £95,000	1	1
	<u>11</u>	<u>10</u>

	2013 £	2012 £
Chairman:-		
Emoluments		
G W Nash (retired 24 June 2013)	2,162	4,344
J W Goolamier (appointed 24 June 2013)	2,156	-
	<u>4,318</u>	<u>4,344</u>

	2013 £	2012 £
The highest paid member:-		
Remuneration	90,862	86,572
Benefits in kind	3,550	3,550
	<u>94,412</u>	<u>90,122</u>
Emoluments	<u>94,412</u>	<u>90,122</u>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

7	TAXATION	2013 £	2012 £
	Current tax:		
	UK Corporation tax on profits of the period	-	-
	Irrecoverable tax on franked investment income	24,025	27,569
	Adjustment in respect of previous periods	-	(3,223)
		24,025	24,346
	Total current tax	24,025	24,346
	Deferred tax:		
	Origination and reversal of timing differences		
	current year	-	1,258
	prior year	-	(4,745)
		-	(3,487)
	Total deferred tax	-	(3,487)
		24,025	20,859
	Tax on surplus on ordinary activities	24,025	20,859
		2013 £	2012 £
	DEFERRED TAX:		
	Movement in deferred tax for the period:		
	At 1 January	-	3,487
	Credit in profit and loss account	-	(3,487)
		-	-
	At 31 December	-	-
		-	-
		2013 £	2012 £
		Provided	Unprovided
		2013	2013
		2012	2012
		£	£
	Accelerated capital allowances and other		
	short term timing differences	2,700	3,998
	Unrealised loss on investments	-	19,306
	New business spreading	(53,086)	(50,654)
	Revaluation of investments	70,293	56,182
	Capital losses	-	(26,665)
	Excess management expenses	(19,907)	(2,167)
		-	-
		-	-
		-	-
		(211,303)	(4,137)

The Society has taken the view that there is sufficient uncertainty that the net deferred tax asset will be recoverable as it is dependent on off-settable taxable income and gains. The Society has therefore chosen not to recognise the deferred tax asset.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

8	INVESTMENTS	2013 £	2012 £
	Land and buildings	270,000	270,000

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 2013 on an open market basis. On a historical cost basis the property would have been included at a cost of £29,627 (2012: £29,627).

Other financial investments:

	Current value		Historic cost	
	2013 £	2012 £	2013 £	2012 £
Listed:				
British Government and Local Authority stocks	8,061,250	15,773,510	8,320,829	15,092,014
British company equity capital	5,527,496	4,818,838	4,670,357	4,025,922
Unit & investment trusts	395,283	773,700	113,744	113,744
Eurobonds	11,455,730	5,428,243	11,838,741	5,055,022
	25,439,759	26,794,291	24,943,671	24,286,702
Unlisted:				
Loans secured by mortgages	298,737	46,491	298,737	46,491
Fixed term deposits	250,000	250,000	250,000	250,000
Other loans	1,150,476	1,111,942	1,150,476	1,111,942
	27,138,972	28,202,724	26,642,884	25,695,135

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 2013

9	TANGIBLE FIXED ASSETS	Motor vehicles £	Fixtures, fittings and equipment £	Total £
	Cost			
	1 January 2013	28,169	100,706	128,875
	Additions	-	1,115	1,115
	Disposals	-	-	-
		-----	-----	-----
	31 December 2013	28,169	101,821	129,990
		-----	-----	-----
	Depreciation			
	1 January 2013	7,042	92,502	99,544
	Charge for the year	7,042	3,987	11,029
	Eliminated on disposals	-	-	-
		-----	-----	-----
	31 December 2013	14,084	96,489	110,573
		-----	-----	-----
	Net book value			
	31 December 2013	14,085	5,332	19,417
		=====	=====	=====
	31 December 2012	21,127	8,204	29,331
		=====	=====	=====

10 RESERVES AND TECHNICAL PROVISIONS

	Fund for future appropriations £	Long term business provision £	Provision for bonuses: Reversionary £
1 January 2013	5,854,395	23,268,972	588,055
Release of bonus provision	-	588,055	(588,055)
Provision for bonuses	-	-	573,215
Transfer from technical account	428,031	(1,840,040)	-
	-----	-----	-----
31 December 2013	6,282,426	22,016,987	573,215
	=====	=====	=====

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 2013

11	CREDITORS	2013 £	2012 £
	Payable within 12 months otherwise than by instalments:		
	Other creditors including taxation and social security	6,742	8,132
		<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 £40,124 (2012: £40,999).

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 2013 totalled £60,798 (2012: £40,480).

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.

	2013		2012	
	Number of persons	Amount £	Number of persons	Amount £
Life assurance policies:				
Premiums paid during the year	14	17,414	12	13,036
Total sum assured as at 31 December	10	219,142	12	170,295

Commission of £1,379 (2012: £2,257) 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 16.

During the year a mortgage advance of £260,000 was made to R G Frier. Interest of £10,934 has been charged during the year and the balance outstanding on the mortgage at 31 December 2013 was £259,934.

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 2013

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:

	2013 £'000	2012 £'000
Available capital resources in respect of life assurance business:		
Fund for future appropriations	6,282	5,854
Adjustment to assets onto a regulatory basis	(5)	(17)
Resilience reserve	(769)	(436)
Closure reserve	(35)	(994)
	<hr/>	<hr/>
Total available capital resources	5,473	4,407
Capital resources requirement	(1,021)	(1,089)
	<hr/>	<hr/>
Excess capital over regulatory requirements	4,452	3,318
	<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 2013 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 FCA and PRA regulations.

MOVEMENT IN CAPITAL RESOURCES

The movement is summarised below:

	2013 £'000	2012 £'000
Opening capital resources	4,407	5,878
Change in liability valuation assumptions	1,451	(1,711)
Provision for bonus	(573)	(588)
Investment surplus	(688)	683
Claims surplus	202	66
Change in closure reserve	958	329
Expense surplus	192	192
Net new business and other	(476)	(442)
	<hr/>	<hr/>
Balance at 31 December	5,473	4,407
	<hr/> <hr/>	<hr/> <hr/>

The change in valuation assumptions is largely due to the increase in valuation interest rate arising from higher yields on the assets held by the Society.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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% (2012: 20%) of the future gross premiums.

Closure reserve: A closure reserve of £35,461 (2012: £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 £768,650 (2012: £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 £573,215 (2012: £588,055) has been included to allow for the expected cost of the 2013 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% AMC00 for males and 90% AFC00 for females, taken from the Ultimate Tables for Assured Lives, while the rate of disablement is 80% 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 2.4% (2012: 1.5%) per annum for tax exempt business and 1.92% (2012: 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 0.69% drop in bond yields.
- a fall in the market value of equities of 10% combined with a 0.69% rise in bond yields.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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 sub-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.