

Railway Enginemen's Assurance
Society Limited

FINANCIAL STATEMENTS

for the year ended

31 December 2014

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
A Edwards Deputy Chairman
R G Frier
J McKenna
A D Rich
J S Turner
L P Davies
R T Brushfield-Hodges (appointed 23 June 2014)

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

Alison E Carr FIA
Steve Dixon Associates LLP
Oaks House
18-22 West Street
Epsom
Surrey
KT18 7RG

SOLICITORS

Foot Anstey LLP
100 Victoria Street
Bristol
BS1 6HZ

BANKERS

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

INVESTMENT MANAGERS

Vestra Wealth LLP
14 Cornhill
London
EC3V 3NR

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

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 2014. 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 relevant 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.

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 2014 as prescribed in the Prudential Reporting Rules set out in Chapter 4 of the Interim Prudential Sourcebook for Friendly Societies.

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 report on corporate governance.

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. Any complaint that might fall outside the scope of the Ombudsman's 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

We are 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. We are also heartened by the level of unsolicited comments received and this support is something that is never taken for granted. The Society would not enjoy this level of success without the continuing commitment, effort and dedication of our staff. They take enormous pride in serving the membership and we have great pleasure in recording our thanks and appreciation to them.

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 14th April 2015
and signed on its behalf

J W Goolamier
Chairman

Railway Enginemen's Assurance Society Limited

STRATEGIC REPORT

STRATEGIC REPORT

Business performance

Your Management Committee is pleased to be able to report that the Society has again achieved a steady performance during yet another unsettled year. While there are signs of recovery in the domestic economy there are regular setbacks in Europe that have the effect of renewing the uncertainty. Against this nervous backdrop we have managed another year of generating encouraging levels of new business, a reduction of management expenses and a strengthening of our capital position.

The UK economy has recorded better growth than its European neighbours and, indeed, a number of countries within the Eurozone have experienced contraction in the latter stages of 2014. On the domestic front escalating living costs have remained a concern although there has been better news on increased employment levels.

The financial services sector has struggled to substantially increase mortgage lending, partly as a result of the more stringent, and some would say much overdue and more realistic, lending criteria being imposed by banks and building societies. The savings market has remained tough with Bank of England base rate resisting any movement from its historically low level. This year, even the headline grabbing teaser rates offered to savers, usually a regular feature in the financial press, have been very few and far between. Banks have maintained their attempts to rebuild public trust but there remains a jaundiced view fuelled by, amongst other issues, PPI claims stubbornly refusing to go away. The revelations surrounding LIBOR and the manipulation of rate setting has done little to help on this road to redemption.

In contrast the Society has made every effort to maintain its high level of member service and member satisfaction. The focus to act in the wider interests of the membership remains at the forefront of our philosophy and success on this front continues to be a key measure of the Society's performance.

We have seen no dilution of our members' appetite for saving and we recognise how fortunate we are to have a membership with a strong ethic of providing for the future for themselves and for their families. We continue to be heartened, particularly during these challenging economic times, by this focus on self-sufficiency.

Membership

We have continued to offer our products on a non-advised basis only, through our network of Area Representatives and Depot Introducers. We are always looking to expand these channels and have been successful in bringing a number of new faces on board. Whilst there are the inevitable changes brought about by Depot Introducers relocating or leaving service we feel quite fortunate that the Society's good name helps in the search to find replacements and, more importantly, to expand the scope of the network. New appointments bring new enthusiasm and help to widen the breadth of our coverage.

In the year, 2,403 new policies were admitted, a 2.83% decrease from the 2,473 admitted in 2013, but still a healthy number. These policies accounted for combined new sums assured of £6.1m against the previous year's £6.3m.

Railway Enginemen's Assurance Society Limited

STRATEGIC REPORT

Policies Summary	2014	2013
Number of policies at 31 December	18,121	17,923
Number of members	4,769	4,792
Number of new policies	2,403	2,473
New sums assured	£6.1m	£6.3m

Premiums earned for the year increased by 2.4% to £4,222,434 compared to the £4,124,071 achieved in 2013.

Claims

Claims totalling £3,716,119 were paid out during the year, a small reduction from the £3,748,526 paid in 2013. 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 strongly. Fixed interest stocks gained strength as we approached the end of 2014 resulting in further declines in yields.

The Society has continued with its cautious investment strategy and throughout the year a strong solvency position was maintained whilst generating a steady investment income stream. Investment disposals crystallised gains of £97,483, against losses in 2013 of £443,903. At the end of 2014 there were unrealised gains of £1,244,501 in the value of investments held, a welcome contrast to the unrealised losses of £1,089,581 at the previous year end. The market value of investment holdings at the close of 2014 was £29,723,836, an increase from the £27,138,972 at the end of 2013. Additionally, there were bank balances of £447,708 at the end of 2014 against £753,680 at the end of the previous year. During 2014 investment income of £1,191,188 was generated, a slight increase over the £1,157,503 arising in the previous year.

We review our professional advisers on a regular basis and make changes when it is considered appropriate. This year we changed investment managers, moving from Close Brothers Asset Management to Vestra Wealth. Close Brothers had served the Society well for many years and had performed particularly well during the difficult times of the financial markets collapse. Changes in regulation and the impending arrival of Solvency II bring with them new demands on fund management and, after a formal review process, we took the decision to move across to Vestra Wealth. Vestra has a wide exposure to friendly societies and is well equipped to meet these new requirements. The firm has a proactive style and we believe they will take full advantage of available investment opportunities whilst remaining within the confines of the Society's risk profile.

We remain cautious of the volatility of investment markets and will work closely with our actuary and our investment managers in safeguarding members' funds whilst maximising investment returns.

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.

Railway Enginemen's Assurance Society Limited

STRATEGIC REPORT

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	%	%
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
2014	4,222	2.38	796	(2.21)	18.85

Risks

The Society recognises that effective risk management is key in achieving the strategic objectives. The process begins with identifying these risks and putting measures in place to address them or to minimise them. As with all businesses the risks faced are numerous and a significant amount of resource is allocated in managing them.

The key risks faced by the Society include:

Investment performance – poor performance can lead to a reduction in the value of assets and a weakening of the Society's solvency position. To alleviate this risk professional investment managers are engaged to manage the Society's investment portfolio. They work within asset allocation parameters agreed with the Management Committee and the Society's Actuaries and on a daily basis provide data to the Society's management. The Management Committee reviews the fund performance on a monthly basis.

Regulatory demands – the Society is faced with ever increasing regulatory requirements and in particular with regard to Solvency II. The Prudential Regulation Authority has only very recently decided how non-directive societies approaching the Solvency II thresholds will be regulated, with the outcome that the Society will come within scope of the regulations with effect from 1 January 2016. Preparing for Solvency II is a resource intensive process and the Society is having to fast-track a number of issues that other societies have been working towards for a number of years. As with all of these issues the Society has a network of professional advisors with which it works and a small management team with the skills and application to achieve the goals set.

Key personnel – The Society's continuing success owes much to the dedication and efforts of its staff and in particular its senior management. The Management Committee is tasked with ensuring that the Society can recruit and retain the range of skills and expertise necessary to develop the business as well as in meeting regulatory requirements. It is also a fundamental requirement for the Management Committee to manage its own composition, skills and succession and it recognises the challenges being introduced with the regulators' overhaul of the Approved Persons Regime.

Railway Enginemen's Assurance Society Limited

STRATEGIC REPORT

Future developments

The continuing economic and political uncertainty across Europe does little to create a stable environment. Although domestic growth prospects have shown positive signs the approach of a General Election in the first half of 2015 will undoubtedly lead to some changes. The one thing we can be sure of is that the coming year will be one of challenge.

Mention was made earlier of Solvency II, the European directive aimed at harmonising EU insurance regulation. Whilst its purpose is to enhance consumer protection and strengthen the capital position of insurers there has been wrangling amongst the member states and inordinate delays in bringing the regulations into being. In rather rushed circumstances the implementation date of 1 January 2016 has been agreed. The Society has undertaken a significant amount of preparatory work on the project and will maintain efforts throughout 2015.

Aside from the complex capital calculations there are many other facets to Solvency II. Whilst the "one size fits all" approach invariably has unintended burdens for the smaller organisation there are matters of sound business practices and good governance that are to be embraced and we will strive to fully embed them within the Society's operations and culture.

We have never aspired to be the all singing and dancing financial services provider. The Society's purpose and ethos remain today as they have been since its inception; to provide affordable savings and protection products to those employed within the railway industry, and their families, delivered through a first-class service. We aim to continue to build on this platform of providing the products and services our members want.

We have managed to build up the business year-on-year and remain confident of maintaining this growth pattern without placing undue pressure on available capital resources. The early weeks of 2015 have seen encouraging levels of new business. Since the beginning of the year we have added a further Area Representative to the team and are looking to build up our presence in areas where we have had only a limited exposure. Our Depot Introducer network is constantly expanding and remains an ideal method of building awareness in the workplace and delivering our products to members. The strategy will continue to be to grow the business organically at a controlled, manageable rate.

We approach the landmark 150th anniversary of the Society's formation with a strong belief that we are in a position to remain as an independent friendly society with a strong financial base and a firm focus on continuing to deliver a first class service to our members.

J W Goolamier
Chairman

14 April 2015

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 eight 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 69. 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 in June 2013.
Alan Edwards	Age 50. Alan joined the Committee in 2004 and is currently the Society's Deputy Chairman and the Senior Independent Director. He also serves on the Audit & Risk Management sub-Committee. A driver with Northern Rail based at Sheffield, Alan holds FPC 1 level and is a former school governor.
Lee Davies	Age 47. Lee was elected onto the Committee at the Annual General Meeting in 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 67. Roger was appointed to the Management Committee in 2010. He is a Chartered Banker and has spent his career in mutual financial services organisations. He retired from his role as Chief Executive of a northern friendly society whom he joined after having previously been Chief Executive of Railway Enginemen's Assurance Society. He is also a former consultant with Cazenove Capital Management. Currently he is Deputy Chairman and Trustee of Leeds Teaching Hospitals Charitable Foundation and Chairman of the With Profits Committee of Healthy Investment. Roger serves on the Society's Audit & Risk Management sub-Committee.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

The Management Committee (continued)

Joe McKenna	Age 41. Joe joined the Management Committee in 2006 and is Chairman of the Audit & Risk Management sub-Committee. 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.
Alan Rich	Age 66. 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 67. 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.
Terry Brushfield-Hodges	Age 75. Terry rejoined the Committee in 2014, being elected by the members at the Annual General Meeting, having served previously between 2006 and 2010. He is a retired financial adviser and served for many years as a Superintendent with Provident Mutual where he was closely involved with the British Rail Pension Schemes and the AVC (BRASS) Scheme. Since retiring he has undertaken retail compliance work with the Society and has also been involved in providing debt counselling.

Senior Management:

Chief Executive & Secretary:

Robert Leddington Age 63. Appointed 1999. Chartered Accountant and qualified financial adviser.

General Manager:

Victoria Herbert Age 43. Appointed 1999. Qualified financial adviser.

Finance Manager:

Lynsey Inglis Age 28. Finance graduate. Chartered Accountant.

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

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.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

The Management Committee (continued)

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.

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. In 2013 Joe Goolamier was elected as Chairman, 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.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

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 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 2014 the Committee met to conduct Society business on seven occasions, including a 2-day event in June. A further day was dedicated to training needs and focuses on topical issues and corporate governance. The meeting 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.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

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 three times during the year and those meetings were also attended by the senior management. On one occasion the external auditors were present and on two occasions representatives from the internal audit firm attended. Additionally, members of the sub-Committee have attended clearance meetings held with the external auditors. When considered appropriate members of the sub-Committee meet also with the external auditors at their offices, independently of the senior management. 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 to 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 2014 financial statements remains the actuarial valuation. During 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.

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.

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CORPORATE GOVERNANCE REPORT

Audit & Risk Management 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
Joe Goolamier	9/10	-
Alan Edwards	9/10	3/3
Joe McKenna	10/10	3/3
Alan Rich	9/10	-
John Turner	9/10	-
Roger Frier	7/10	3/3
Lee Davies	7/10	-
Terry Brushfield-Hodges	7/7	-
Robert Leddington*	10/10	3/3

* 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 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:

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Internal Control (continued)

- 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:

- 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.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Statement of Responsibilities of the Management Committee (continued)

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 2014, 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 14th April 2015
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 2014 this was at the daily rate of £237 (2013: £228). 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 - £2,600 (£1,740); sub-Committee Chairman - £1,950 (£1,170); sub-Committee member - £1,625 (£1,170); Management Committee members - £1,300 (£1,170). 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 2014 were as follows:

	Fees and allowances £	Commission £	Salary £	Benefits £	Pension cost £	Total 2014 £
J W Goolamier (1)	4,598	-	-	-	-	4,598
A Edwards	3,858	447	-	-	-	4,305
J McKenna	4,567	-	-	-	-	4,567
A D Rich	2,854	222	-	-	-	3,076
J S Turner	2,911	-	-	-	-	2,911
R G Frier	4,367	-	-	-	-	4,367
L P Davies	2,820	592	-	-	-	3,412
R T Brushfield-Hodges (2)	1,844	-	-	-	-	1,844
R Leddington	-	-	94,464	3,564	16,860	114,888
	27,819	1,261	94,464	3,564	16,860	143,968

The comparative figures for 2013 were as follows:

	Fees and allowances £	Commission £	Salary £	Benefits £	Pension cost £	Total 2013 £
G W Nash (3)	2,162	-	-	-	-	2,162
A Edwards	2,924	248	-	-	-	3,172
W C H Goode (4)	767	322	-	-	-	1,089
J W Goolamier	4,079	71	-	-	-	4,150
A R McGilvray (5)	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 (6)	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) Appointed Chairman 24 June 2013

(2) Appointed 23 June 2014

(3) Retired 24 June 2013

(4) Resigned 28 May 2013

(5) Died 23 May 2013

(6) Appointed 15 April 2013

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. Terry Brushfield-Hodges undertakes retail compliance consultancy for the Society. In 2014 the total paid in respect of these services amounted to £10,542. It is considered that provision of these services does not impact either his independence or judgement as a Management Committee member.

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
14th April 2015

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

We have audited the financial statements on pages 21 to 35. 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 15. 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 www.frc.org.uk/auditscopeukprivate

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 2014 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 (issued November 2012).

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 2014.

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 £250,000, 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

14 April 2015

Railway Enginemen's Assurance Society Limited

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 December 2014

	<i>Notes</i>	2014 £	2013 £
TECHNICAL ACCOUNT – LONG TERM BUSINESS			
INCOME:			
Earned premiums		4,222,434	4,124,071
INVESTMENT INCOME			
UNREALISED GAINS / (LOSSES) ON INVESTMENTS	1	1,288,671	713,600
		1,244,501	(1,089,581)
		2,533,172	(375,981)
TOTAL INCOME		6,755,606	3,748,090
EXPENDITURE:			
Claims incurred	2	3,716,119	3,748,526
Change in long term business provision	10	861,840	(1,840,040)
Provision for bonuses - reversionary	10	602,325	573,215
		5,180,284	2,481,701
NET OPERATING EXPENSES			
Acquisition costs		185,242	181,067
Administrative expenses	4	610,811	633,266
		796,053	814,333
TOTAL EXPENDITURE		5,976,337	3,296,034
EXCESS OF INCOME OVER EXPENDITURE BEFORE TAXATION	3	779,269	452,056
TAXATION	7	(41,716)	(24,025)
TRANSFER TO FUND FOR FUTURE APPROPRIATIONS	10	737,553	428,031

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 2014

	<i>Notes</i>	2014 £	2013 £
INVESTMENTS	8		
Land and buildings		270,000	270,000
Other financial investments – long term fund		29,723,836	27,138,972
		<hr/>	<hr/>
		29,993,836	27,408,972
DEBTORS			
Debtors from direct insurance operations – Members		326,175	337,054
Other debtors		227	294
		<hr/>	<hr/>
		326,402	337,348
OTHER ASSETS			
Tangible fixed assets	9	10,497	19,417
Cash at bank and in hand		447,708	753,680
		<hr/>	<hr/>
		458,205	773,097
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		436,319	465,609
Other prepayments and accrued income		30,512	24,814
		<hr/>	<hr/>
		466,831	490,423
		<hr/>	<hr/>
		31,245,274	29,009,840
		<hr/> <hr/>	<hr/> <hr/>

Railway Enginemen's Assurance Society Limited

BALANCE SHEET - LIABILITIES

31 December 2014

	<i>Notes</i>	2014 £	2013 £
FUND FOR FUTURE APPROPRIATIONS	10	7,019,979	6,282,426
TECHNICAL PROVISIONS			
Long term business provision	10	23,452,042	22,016,987
Provision for bonuses	10	602,325	573,215
Claims outstanding		60,157	38,387
		<hr/>	<hr/>
		24,114,524	22,628,589
PROVISION FOR OTHER RISKS AND CHARGES			
Deferred taxation	7	-	-
CREDITORS			
Other creditors including taxation and social security	11	21,566	6,742
ACCRUALS AND DEFERRED INCOME		89,205	92,083
		<hr/>	<hr/>
		31,245,274	29,009,840
		<hr/> <hr/>	<hr/> <hr/>

Approved and authorised for issue by the Management Committee on 14 April 2015

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 2014

1	INVESTMENT INCOME	2014	2013
		£	£
	Income from investments:		
	Listed	1,100,266	1,069,118
	Mortgage interest	15,771	14,331
	Other interest receivable	75,151	74,054
		<hr/>	<hr/>
	Net gains/(losses) on realisation of investments	1,191,188	1,157,503
		97,483	(443,903)
		<hr/>	<hr/>
		1,288,671	713,600
		<hr/> <hr/>	<hr/> <hr/>
2	CLAIMS INCURRED	2014	2013
		£	£
	Expenditure for the year comprises:		
	Claims for benefit:		
	Retired members (aged 65)	71,189	95,286
	(aged 60)	110,510	105,424
	Disabled members	66,019	129,213
	Deceased members	44,574	47,346
	Endowments	2,563,332	2,527,313
	Rebates	860,495	843,944
		<hr/>	<hr/>
		3,716,119	3,748,526
		<hr/> <hr/>	<hr/> <hr/>
3	EXCESS OF INCOME OVER EXPENDITURE BEFORE TAXATION	2014	2013
		£	£
	Excess of income over expenditure before taxation is stated after charging:		
	Depreciation	8,920	11,029
	Auditor's remuneration:		
	Audit services	46,044	44,672
	Non-audit services	3,540	3,480
	Actuary's remuneration	68,083	60,798
		<hr/>	<hr/>
		<hr/> <hr/>	<hr/> <hr/>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

4	ADMINISTRATIVE EXPENSES	2014 £	2013 £
	Salaries and national insurance	278,570	307,848
	Premium collection services	50,111	47,025
	Expenses of committees and agents	38,540	36,109
	General office expenses	89,705	103,701
	Professional fees	153,885	138,583
		<hr/>	<hr/>
		610,811	633,266
		<hr/> <hr/>	<hr/> <hr/>
5	EMPLOYEES	2014 No.	2013 No.
	The average monthly number of persons employed by the Society during the year was:		
	Administration	6	6
	Acquisition	1	1
		<hr/>	<hr/>
		7	7
		<hr/> <hr/>	<hr/> <hr/>
		2014 £	2013 £
	Staff costs for above persons:		
	Wages and salaries	275,504	290,921
	Social security costs	28,940	32,867
	Other pension costs	44,261	51,710
		<hr/>	<hr/>
		348,705	375,498
		<hr/> <hr/>	<hr/> <hr/>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

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.

	2014 £	2013 £
Emoluments paid to members during the year:		
Fees and allowances	27,819	25,975
Salaries and benefits in kind	98,028	94,412
Pension costs	16,860	16,211
	<u>142,707</u>	<u>136,598</u>

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

	2014 No	2013 No
Not more than £5,000	8	10
More than £5,000 but not more than £9,000	-	1
More than £9,000 but not more than £100,000	1	-
	<u>9</u>	<u>11</u>

	2014 £	2013 £
Chairman:-		
Emoluments		
G W Nash (retired 24 June 2013)	-	2,162
J W Goolamier (appointed 24 June 2013)	4,597	2,156
	<u>4,597</u>	<u>4,318</u>

	2014 £	2013 £
The highest paid member:-		
Remuneration	94,464	90,862
Benefits in kind	3,564	3,550
	<u>98,028</u>	<u>94,412</u>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

7	TAXATION			2014	2013
				£	£
	Current tax:				
	UK Corporation tax on profits of the period			14,303	-
	Irrecoverable tax on franked investment income			27,413	24,025
	Adjustment in respect of previous periods			-	-
				<hr/>	<hr/>
	Total current tax			41,716	24,025
				<hr/>	<hr/>
	Deferred tax:				
	Origination and reversal of timing differences				
	current year			-	-
	prior year			-	-
				<hr/>	<hr/>
	Total deferred tax			-	-
				<hr/>	<hr/>
	Tax on surplus on ordinary activities			41,716	24,025
				<hr/> <hr/>	<hr/> <hr/>
				2014	2013
				£	£
	DEFERRED TAX:				
	Movement in deferred tax for the period:				
	At 1 January			-	-
	Credit in profit and loss account			-	-
				<hr/>	<hr/>
	At 31 December			-	-
				<hr/> <hr/>	<hr/> <hr/>
		Provided	Unprovided		
		2014	2013	2014	2013
		£	£	£	£
	Accelerated capital allowances and other short term timing differences	1,477	2,700	-	-
	Unrealised loss on investments	-	-	(36,335)	(34,786)
	New business spreading	(41,772)	(53,086)	(12,157)	-
	Revaluation of investments	40,295	70,293	-	-
	Capital losses	-	-	(1,395)	-
	Excess management expenses	-	(19,907)	-	(176,517)
		<hr/>	<hr/>	<hr/>	<hr/>
		-	-	(49,887)	(211,303)
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 2014

8	INVESTMENTS	2014	2013
		£	£
	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 2014 on an open market basis. On a historical cost basis the property would have been included at a cost of £29,627 (2013: £29,627).

Other financial investments:

	Current value		Historic cost	
	2014	2013	2014	2013
	£	£	£	£
Listed:				
British Government and Local Authority stocks	9,103,053	8,061,250	8,776,157	8,320,829
UK and Overseas Equities	6,249,728	5,527,496	5,738,581	4,670,357
Unit & Investment Trusts	1,821,361	395,283	1,831,640	113,744
UK and Overseas Fixed Interest Securities	11,160,287	11,455,730	10,660,043	11,838,741
	<u>28,334,429</u>	<u>25,439,759</u>	<u>27,006,421</u>	<u>24,943,671</u>
Unlisted:				
Loans secured by mortgages	291,073	298,737	291,073	298,737
Fixed term deposits	-	250,000	-	250,000
Other loans	1,098,334	1,150,476	1,098,334	1,150,476
	<u>29,723,836</u>	<u>27,138,972</u>	<u>28,395,828</u>	<u>26,642,884</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 2014

9	TANGIBLE FIXED ASSETS	Motor vehicles £	Fixtures, fittings and equipment £	Total £
	Cost			
	1 January 2014	28,169	101,821	129,990
	Additions	-	-	-
	Disposals	-	-	-
		-----	-----	-----
	31 December 2014	28,169	101,821	129,990
		-----	-----	-----
	Depreciation			
	1 January 2014	14,084	96,489	110,573
	Charge for the year	7,042	1,878	8,920
	Eliminated on disposals	-	-	-
		-----	-----	-----
	31 December 2014	21,126	98,367	119,493
		-----	-----	-----
	Net book value			
	31 December 2014	7,043	3,454	10,497
		=====	=====	=====
	31 December 2013	14,085	5,332	19,417
		=====	=====	=====

10 RESERVES AND TECHNICAL PROVISIONS

	Fund for future appropriations £	Long term business provision £	Provision for bonuses: Reversionary £
1 January 2014	6,282,426	22,016,987	573,215
Release of bonus provision	-	573,215	(573,215)
Provision for bonuses	-	-	602,325
Transfer from technical account	737,553	861,840	-
	-----	-----	-----
31 December 2014	7,019,979	23,452,042	602,325
	=====	=====	=====

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 Mrs A E Carr 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 2014

11	CREDITORS	2014 £	2013 £
	Payable within 12 months otherwise than by instalments:		
	Other creditors including taxation and social security	21,566	6,742

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 £38,013 (2013: £40,124).

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

The appointed Actuarial Function Holder and With-Profits Actuary of the Society until his resignation on 12 June 2014 was Mr Stephen Dixon, principal of Steve Dixon Associates LLP. On 12 June 2014 Mrs Alison Carr, an Actuary with Steve Dixon Associates LLP, was appointed as Actuarial Function Holder and With-Profits Actuary.

The Society has requested them to provide certain particulars requested in Section 77 of the Friendly Societies Act 1992. They have confirmed they are not a member of the Society, and that neither they nor their family, nor any partners, nor any corporate body of which they are director or is controlled by them, has any financial or pecuniary interests in the Society, other than fees paid to Steve Dixon Associates LLP for actuarial services, which in 2014 totalled £68,083 (2013: £60,798).

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.

	2014		2013	
	Number of persons	Amount £	Number of persons	Amount £
Life assurance policies:				
Premiums paid during the year	11	17,419	14	17,414
Total sum assured as at 31 December	11	235,614	10	219,142

Commission of £1,261 (2013: £1,379) 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 17.

During the year R G Frier had a mortgage with the Society. Interest of £12,822 (2013: £10,934) has been charged. At 31 December 2014 £259,556 (2013: £259,934) was owed to the Society in respect of the mortgage.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

14 TRANSACTIONS WITH COMMITTEE MEMBERS, OFFICERS AND THEIR CLOSE FAMILY MEMBERS (continued)

During the year R T Brushfield-Hodges was paid £10,542 for retail compliance consultancy provided to the Society.

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.

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:

	2014	Restated 2013
	£'000	£'000
Available capital resources in respect of life assurance business:		
Fund for future appropriations	7,020	6,282
Adjustment to assets onto a regulatory basis	(16)	(24)
Resilience reserve	(487)	(769)
Closure reserve	-	(35)
	<hr/>	<hr/>
Total available capital resources	6,517	5,454
Capital resources requirement	(1,065)	(1,021)
	<hr/>	<hr/>
Excess capital over regulatory requirements	5,452	4,433
	<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 2014 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.

The 2013 figures have been restated to reflect a change in admissible assets of £18,860.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

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

MOVEMENT IN CAPITAL RESOURCES

The movement is summarised below:

	2014 £'000	Restated 2013 £'000
Opening capital resources	5,454	4,407
Change in economic assumptions	(750)	1,289
Change in demographic assumptions	246	162
Provision for bonus	(602)	(573)
Investment surplus	2,093	(707)
Claims surplus	259	202
Change in closure reserve	35	958
Expense surplus	245	192
Net new business and other	(463)	(476)
	<hr/>	<hr/>
Balance at 31 December	6,517	5,454
	<hr/> <hr/>	<hr/> <hr/>

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

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% (2013: 20%) of the future gross premiums.
Closure reserve:	A closure reserve of £Nil (2013: £35,461) 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 £486,960 (2013: £768,650) 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 £602,325 (2013: £573,215) has been included to allow for the expected cost of the 2014 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.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

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

Mortality and disablement: The rate of mortality for Assured Lives aged 17 or over is 80% (2013: 90%) AMC00 for males and 80% (2013: 90%) AFC00 for females, taken from the Ultimate Tables for Assured Lives, while the rate of disablement is 50% (2013: 80%) of the rates derived from the Society's own experience. For children the rate of mortality is 50% (2013: 60%) of ELT15.

Interest: A rate of interest of 1.8% (2013: 2.4%) per annum for tax exempt business and 1.44% (2013: 1.92%) 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 0.44% drop in bond yields.
- a fall in the market value of equities of 10% combined with a 0.44% rise in bond yields.

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.