

Railway Enginemen's Assurance
Society Limited

FINANCIAL STATEMENTS

for the year ended

31 December 2016

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
R G Frier Deputy Chairman
A Edwards
J McKenna
A D Rich (retired 20 June 2016)
L P Davies
R T Brushfield-Hodges
M A Bicknell (appointed 23 January 2016, resigned
2 October 2016, reappointed 27 February 2017)
M A Casey (appointed 25 April 2016)

AUDITORS

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

SOLICITORS

SAS Daniels
35 White Friars
Chester
Cheshire
CH1 1NZ

INTERNAL AUDITORS

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

INVESTMENT MANAGERS

LGT Vestra LLP
14 Cornhill
London
EC3V 3NR

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)

CHIEF EXECUTIVE AND SECRETARY

M A Bicknell BA (Hons), ACA (appointed 27
February 2017)
R Leddington FCA (retired 27 February
2017)

REGISTERED OFFICE

727 Washwood Heath Road
Ward End
Birmingham
B8 2LE

CHIEF ACTUARY

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

BANKERS

NatWest Bank plc
868 Washwood Heath Road
Birmingham
B8 2WA

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

Railway Enginemen's Assurance Society Limited

MANAGEMENT COMMITTEE'S ANNUAL REPORT

MANAGEMENT COMMITTEE'S ANNUAL REPORT

The Management Committee has pleasure in presenting its report and the financial statements of the Society for the year ended 31 December 2016. The accounts have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994, the Friendly Societies Act 1992 and Financial Reporting Standards 102 and 103. Following the implementation of the Solvency II Directive on 1 January 2016 the Society's technical provisions are now calculated in accordance with the Delegated Text and associated guidelines.

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 Management 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.

TANGIBLE ASSETS

The changes in the Society's tangible assets are shown in note 11 of the financial statements.

ASSETS IN EXCESS OF CAPITAL REQUIREMENT

The Society's capital requirement, based on Solvency II Minimum Capital Requirement of €3.7million, was £3,331,850 (2015: £2,657,340). The Society held assets of £2,107,784 (2015: £2,674,068) in excess of its capital requirement.

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 Corporate Governance Report.

COMPLAINTS PROCEDURE

The Society aims to provide the highest possible level of service to its members. However, we operate a formal procedure for dealing with complaints and are committed 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 complaints 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. During 2016, there were no reportable complaints.

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 Depot Introducers and Area Representatives for promoting the Society's values in the workplace. The strength of our commitment to provide this 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 of praise given by our members. This support is used as a measure of our success in "getting it right" but is never taken for granted. The Society would not enjoy this level of achievement 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.

Approved by the Management Committee on 30th March 2017
and signed on its behalf.

J W Goolamier
Chairman

Railway Enginemen's Assurance Society Limited

STRATEGIC REPORT

STRATEGIC REPORT

BUSINESS REVIEW

Business performance

A key priority for the Society during 2016 was the implementation of Solvency II. This European Directive, which became effective on 1 January 2016, is aimed at harmonising the regulation of Insurers across the European Union, bringing in new solvency requirements along with raising governance standards across organisations. This is probably the most significant regulatory change that the Society has had to implement in its history. It has been a major focus for the Society's management team, with support from our professional advisors, including our actuary, fund manager and statutory auditor. It is a not inconsiderable achievement that the Society has successfully implemented Solvency II without disruption to the service provided to our membership. It has unfortunately lead to an increase in our regulatory compliance costs.

In terms of the Financial Statements, the transition to Solvency II is a change in measurement basis, which is dealt with as a change in accounting policy. This is believed to be more relevant and in accord with regulatory reporting requirements. In accordance with accounting standards, this change in accounting policy has to be dealt with retrospectively and as such an adjustment to the prior year Statement of Financial Position has been made. Further detail on this matter is contained in Note 12 of the Financial Statements.

2016 was a most eventful year for the investment markets. The year began with a growth scare in China, concerns about the prospect of interest rate rises in the United States and a large fall in the price of oil. The UK referendum on membership of the European Union in June and the US Presidential Election in November brought additional political uncertainties that concerned investors. The immediate reaction to Brexit was a combination of a sharp fall in sterling and a rise in the FTSE 100, whereas the election of Donald Trump with his focus on investment in infrastructure and protectionist measures appeared to have helped to boost US equity values. The Bank of England base rate fell to a historic low of 0.25% on 4 August.

Against this backdrop of economic and political uncertainty the Society has performed well. We have maintained the focus on our core strengths of exceptional member service and keeping things as simple and straightforward as possible. We recognise also that we are extremely fortunate to have a membership with a strong ethos of self-provision when it comes to their and their families' futures. This financial discipline is one of which they are rightly proud and encourage amongst their colleagues.

The key priorities of the Society are to:

- Meet its contractual obligations to policyholders
- Add value to its members through competitive products that meet their needs
- Maintain a strong financial position to protect members from changes in investment conditions
- Provide first-class customer service

Membership

We have continued to offer our products on a non-advised basis only, through our network of Area Representatives and Depot Introducers. During the year we took on a number of new Depot Introducers at Boston, Dover, Macclesfield, Millerhill and Shoeburyness. Our members are our strongest advocates and we continue to expand this workplace presence and are always looking to increase our breadth of coverage. We are also actively looking to add to our Area Representative network.

Railway Enginemen's Assurance Society Limited

STRATEGIC REPORT

In the year 2,495 new policies were admitted. These policies accounted for combined new sums assured of £6.5m. This healthy level of new business is a major achievement in an uncertain economic climate and a low interest rate environment.

Policies Summary	2016	2015
Number of policies at 31 December	18,688	18,711
Number of members	4,747	4,821
Number of new policies	2,495	2,927
New sums assured	£6.5m	£7.6m

Premiums earned for the year increased by 4.5% to £4,556,047 against the £4,360,562 achieved in 2015. The Management Committee is conscious of the need to grow the business to benefit from greater economies of scale and improve returns to members, whilst preserving the Society's financial strength built up over more than 150 years.

Claims

Claims totalling £4,047,900 were paid out during the year against the £3,966,415 paid in 2015. The vast majority of claims represent maturity payments for policies taken out 10 or more years ago. A full analysis is shown in Note 4 of the financial statements. We are proud of the speedy and efficient way in which we process claims. We strive to be there for our members when they need us most.

Investments

Investment markets continued to be erratic through the year with unpredictable swings in both the fixed interest and equity sectors.

The Society continued with a cautious investment strategy, maintaining a strong solvency position throughout the year and a steady investment income stream. Investment disposals resulted in gains of £182,699 against the £237,300 generated in 2015. At the end of the year there were unrealised gains of £1,516,225 in the value of investments held, in contrast to the unrealised losses of £559,748 at the end of 2015. The market value of investment holdings at the close of 2016 was £30,726,373, an increase from the £29,110,581 at the end of 2015, reflecting strong performance in both the equity and bond markets during 2016. The combined value of the Society's commercial property holdings at Gloucester and Wellington, along with the head office at Birmingham, totalled £1,242,000 up slightly from the 2015 valuation of £1,197,000. The Society is currently in the process of acquiring a further investment property in Halifax, West Yorkshire, but as at the date of this report contracts had yet to be exchanged. Additionally, there were bank balances of £742,806 at the end of 2016 against £372,830 at the end of the previous year, the increased balance being needed in anticipation of completion on the new property purchase during 2017. During 2016 investment income of £1,185,701 was generated, a decrease from the £1,366,720 arising in the previous year.

During 2016 the Society continued to work in close partnership with LGT Vestra in the management of its investment portfolio and in addressing the regulatory demands brought about through the implementation of Solvency II. The firm's proactive fund management approach will support the identification of suitable opportunities as they arise whilst working within the investment parameters of the Society's risk profile and Investment Policy. The Committee is of the view that it is in members' interests to maintain a reasonable exposure to equities in order to benefit from the higher returns from this asset class, whilst preserving the financial strength of the Society so that it can cope with market risks and volatility.

The Society has also continued to work well with our property advisors, Walker Singleton of Halifax. Alongside ongoing management of our existing commercial properties, they are active in assisting the Society with the identification of future investment property opportunities.

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STRATEGIC REPORT

We take a long-term view of investment markets, but remain cautious about short-term volatility. We will continue to work closely with our actuary and our investment managers in safeguarding members' funds whilst generating a reasonable return on our members' investments.

A breakdown of the Society's investments by asset class based on current values is shown below:

Asset Class	2016 %	2015 %
Property	3.9	3.9
British Government Stocks	25.8	26.0
UK and Overseas Equities	19.8	17.0
Unit Trusts and Investment Trusts	10.3	12.0
UK and Overseas Fixed Interest Securities	36.2	36.7
Loans secured by mortgages	0.9	0.9
Other Loans	3.1	3.5
Total	100.0	100.0

Net Operating Expenses

Keeping the costs of running the Society to a minimum while delivering a first-class service to our members remains a key priority. Ensuring value for money across all aspects of the operation is a prime focus for staff although it is accepted that not all expense categories can be contained. The costs of regulation and legislation continue to have a major impact on smaller organisations. Whilst much of the work to implement and embed Solvency II requirements has been undertaken in-house, the Society has been unable to avoid a significant increase in actuarial and audit fees.

2016 saw a significant non-recurring increase in salary costs compared to prior years. This was largely due to the implementation of the succession plan for the Chief Executive role ahead of Rob Leddington's planned retirement during 2017. Management Committee fees were also increased during 2016. This reflected the implementation of Solvency II and the implementation of the Senior Insurance Managers Regime which have brought about a significantly increased level of individual accountability to those who serve the membership as members of the Management Committee. Further details about this are contained in the Remuneration Report.

Year	Earned Premiums	Increase over previous year	Net Operating Costs	Change over previous year	Net operating costs/Earned premiums
	£'000	%	£'000	%	%
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
2015	4,361	3.29	911	14.45	20.89
2016	4,556	4.47	1,163	27.66	25.53

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Risk

Effective risk management is a cornerstone of the Society's strategy as it protects our members' funds, ensures the efficient use of capital and helps to deliver our Business Plan. Risk Management has been further strengthened during 2016 through the embedding of the Own Risk and Solvency Assessment (ORSA) process.

Overall risk appetite, which is the level of risk that the Society is prepared to take to implement its business plan, is determined by the Management Committee. The Risk Appetite Statement is translated into risk thresholds and risk trigger points which are used to manage the Society's solvency.

Within the context of a small insurer, the Society has sought to adopt Three Lines of Defence principles to its risk management arrangements and governance processes. The Three Lines of Defence at the Society are as follows:

- The first Line of Defence is the day-to-day management activity, checking and validation carried out in accordance with policies and procedures. The Management Team, led by the Chief Executive, is responsible for the first Line of Defence.
- The second Line of Defence is the Risk Management function, which seeks to ensure conformity with risk, actuarial and compliance policies and procedures. The Finance Manager as Chief Risk Officer and the Chief Executive are responsible for the second Line of Defence.
- The third Line of Defence comprises of the Society's independent assurance functions i.e. internal audit and external audit.

The Management Committee is satisfied that strong risk management arrangements are in place and there is sufficient capital to mitigate the risks that the Society currently faces or may face in the future.

The principal risks facing the Society and the procedures developed to manage them are as follows:

Credit risk – this is the risk that investment counterparties will not meet their obligations to the Society as they fall due. This risk is minimised by dealing only with counterparties having strong credit ratings, restrictions on the types of assets held, spreading the investments over a diverse portfolio and with investments held in segregated client funds. This acts to dilute the impact of any single occurrence.

Liquidity risk – is where there are insufficient readily available assets to meet member liabilities as they fall due. The nature of the Society's claims is such that we are able to plan for when policies mature and cash flows of premium collections through the train operating companies are monitored closely. Additionally, the Society maintains holdings of cash and other easily realisable assets. It is considered that this risk is minimal.

Market risk - can stem from fluctuations in the valuations of assets, income from assets or interest rates. The Society's investment strategy remains cautious and we work closely with our actuaries and fund managers to maximise income streams whilst managing our exposure to sectors, asset classes and maturity spreads. The Society is able to map policy maturity profiles and where appropriate match investment maturities to suit.

Insurance risk – where the actual claims experience might be different to what had been predicted. This could be in respect of death or disability claims or policy lapses. Claims experience is reported to the Management Committee and deviation from expectations and adverse trends is monitored. The Society's Chief Actuary uses the data when undertaking the actuarial valuations and when making recommendations on bonus rates, surrender rates and policy pricing.

Operational risk – loss arising from inadequate or failed internal processes, people, systems or external events. It would also encompass legal, information systems and regulatory risks. The Society's management has a responsibility to understand how operational risks can impact all areas of the business

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and to put in place measures to mitigate these risks. It also applies to weaknesses, both perceived or real, in the business model and the effectiveness of the distribution channels. Given that the Society has stable systems that it has operated for many years, this is considered to be a low risk.

Investment performance – this is particularly relevant during a prolonged period of low interest rates and market volatility. Weak investment performance can lead to a reduction in the value of assets and a reduced solvency position. To mitigate these risks professional investment managers are engaged to manage the Society's investment portfolio. They work within the asset allocation parameters agreed with the Management Committee and the Society's Chief Actuary and on a daily basis provide data to the Society's management. The Management Committee reviews the fund performance on a regular basis. The Society has taken additional measures to bring diversity to the balance sheet by allocating funds to invest in commercial property. Again, this has been undertaken with suitable expert guidance and with actuarial input to quantify capital requirements. The Society performs stress tests and has detailed plans in place to deal with any unexpected adverse market movements.

Regulatory demands – the Society continues to be faced with increasing regulatory requirements and in particular those emanating from the Solvency II Directive and the Senior Insurance Managers Regime. During 2016 the Society has made substantial progress by embedding its Own Risk and Solvency Assessment (ORSA) into its business decision making and governance processes. The Society is starting to make preparations for the changes to the regulations surrounding Packaged Retail and Insurance Based Investment Products (PRIIPS).

Key personnel – The Society's continuing success owes much to the dedication and efforts of its staff. 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. This has been a particular focus during 2016 in view of the planned retirement of the Chief Executive during 2017. It is also a fundamental requirement for the Management Committee to manage its own composition, skills and succession and it has been successful in attracting further professional expertise to strengthen the non-executive challenge essential to pursuing successful strategy. The Management Committee had recognised during 2015 that it needed to strengthen its capabilities in actuarial matters. We were therefore delighted to invite Moira Casey to join us in April 2016. Moira is a qualified Actuary and brings significant experience of life and pensions office operations and Solvency II project work to the Society. Moira runs her own actuarial practice from her base in Winchester. Moira has made her mark at the Society and has been crucial in helping to navigate the Management Committee through the requirements of Solvency II. She chairs the With Profits Advisory Arrangement.

Future developments

2017 will see a change of leadership at the Society as Rob Leddington retires as Chief Executive and we welcome Marc Bicknell as his successor. Rob has served the Society with great distinction over many years firstly as its Finance Manager and for the last 17 years as its Chief Executive and Secretary. He carefully steered the Society through the turmoil of the global financial crisis and more recently has successfully led the Society's response to a more stringent regulatory regime, including implementation of Solvency II and the development of the ORSA process. He will be remembered as an outstanding Chief Executive and advocate of the Society who led the growth of the business, whilst ensuring it remained true to its founding principles of serving its membership. I am sure that you will join with me in wishing Rob a long and happy retirement.

In October 2016 Marc Bicknell was appointed as Chief Executive designate and assumes the substantive role of Chief Executive following regulatory approval, which was granted in early 2017. Marc, a Chartered Accountant by profession, has substantial management and Board level experience, including non-executive roles within the friendly society sector and is already known to us having served as a member of the Management Committee. Working alongside Rob, he has been developing his relationship within the Management Committee and the head office team that will take the Society forward to the next stage of its development.

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STRATEGIC REPORT

On the investment front, the continued political uncertainty around the United Kingdom's exit from the European Union and a series of general elections in major European economies may bring headwinds in the short term. In the medium term, the Society will need to face into the challenges of continuing to operate in a low interest rate environment alongside increased regulatory and governance costs.

During 2017 we will aim to grow the business by expanding our Depot Introducer and Area Representative network, whilst developing new distribution channels for our core market of the railway industry. We will also respond to the demand from our membership for an increased range of products that meet their financial needs and aspirations. In doing this, we will ensure careful stewardship of our members funds in accordance with the new Solvency II requirements.

We have taken steps to put in place the people to continue to take the Society forward. We are adding to the Management Committee skills essential to achieving success that is both controlled and sustainable.

We maintain the strong belief that we are in a position to remain as an independent friendly society with a sound financial base and a commitment to deliver a first class service to our members.

J W Goolamier
Chairman
30th March 2017

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

REPORT ON CORPORATE GOVERNANCE

The Society is committed to adopting 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 day-to-day operational responsibility for the business 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.

There are certain decision-making powers that are reserved for the Management Committee. These include:

- Declaration of bonus rates
- Approval of the Annual Report and Accounts
- Approval of the Own Risk and Solvency Assessment (ORSA)
- Remuneration Policy
- Appointment and dismissal of the Chief Executive
- Approval of the Business Plan and budgets
- Acquisition / disposal of significant assets

At 31 December 2016 the Management Committee comprised seven members, all of whom were 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 has worked well with the roles and responsibilities of Committee members and management remaining distinct. From February 2017 the incoming Chief Executive has taken on an executive role as a member of the Management 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 71. Joe joined 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 52. Alan joined the Management Committee in 2004 and is currently the Society's 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.

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CORPORATE GOVERNANCE REPORT

Lee Davies	Age 48. Lee joined the Management Committee at the Annual General Meeting in June 2013. Lee serves as a member of the With Profits Advisory Arrangement. He 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 69. Roger joined the Management Committee in 2010. Roger is the Deputy Chairman, he also serves on the Society's Audit & Risk Management sub-Committee and the With Profits Advisory Arrangement. 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 in 2009 which he had 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 Hospital Charitable Foundation and Chairman of the With Profits Committee of Healthy Investment.
Joe McKenna	Age 43. 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 68. Alan joined the Management Committee in 1998. As a driver he spent most of his working life with freight operators. Alan is qualified to FPC 2 level. Having served on the Management Committee for eighteen years Alan decided to stand down at the June 2016 Annual General Meeting. Having first joined the Society in 1967, Alan served as a Depot Introducer for many years and certainly witnessed a considerable amount of change both within the Society and the within the railway industry. We owe thanks to Alan for his long-standing contribution to the Society's success.
Terry Brushfield – Hodges	Age 76. Terry rejoined the Management 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 BRASS AVC Scheme. Since retiring he has undertaken retail compliance work with the Society and has also been involved in providing debt counselling.
Marc Bicknell	Age 40. Marc joined the Committee in January 2016 and was subsequently elected by the membership at the Annual General Meeting in June. He served on the Audit and Risk Management sub-Committee. Marc, a graduate Chartered Accountant, qualified with PricewaterhouseCoopers and has substantial management and Board level experience, including non-executive experience within the friendly society sector. Marc resigned from the Committee in October 2016 in order to take up the role of Chief Executive designate.
Moira Casey	Age 46. Moira joined the Committee in April 2016 and was subsequently elected by the membership at the Annual General Meeting in June. Moira is a qualified Actuary and brings significant experience of life and pensions office operations and Solvency II project work to the Society. Moira runs her own actuarial practice from her base in Winchester.

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CORPORATE GOVERNANCE REPORT

Senior Management:

Chief Executive
& Secretary:

Robert Leddington Age 65. Appointed 1999. Chartered Accountant and qualified financial adviser.

General Manager:
Victoria Herbert

Age 45. Appointed 1999. Qualified financial adviser.

Finance Manager:
Lynsey Inglis

Age 30. Appointed 2012. 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 Annual General Meetings. In addition, between Annual General Meetings the Committee has the power to co-opt other members. Members of the Management Committee are required to hold a policy with the Society. 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 Management Committee does not consider that the use of external recruitment consultants is essential in 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.

Roles of the Chairman, Chief Executive and Secretary

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 Chairman is responsible for creating a culture of mutual respect and openness so that all Committee members are able to make an effective contribution. Ethical leadership and the promotion of the highest standards of integrity, probity and governance are key duties of the Chairman.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

The Chief Executive is responsible for the day-to-day management of the Society and implementing strategies and policies agreed by the Committee. He is accountable to the Management Committee for the Society's financial and operational performance and for the appointment of staff.

The Secretary is responsible for advising the Chairman and the Management Committee on all governance matters, ensuring that meetings are properly minuted, procedures are followed and that there is a good flow of information.

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 three 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 recognized 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 judgment 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

The Management Committee undertakes an annual evaluation of its performance as a Committee. During 2016 this exercise was facilitated by an external consultant who reviewed questionnaires completed by individuals and carried out confidential discussions with all members. The results of this exercise helped to inform the training requirements of Committee members and skills gaps that needed to be addressed through succession planning.

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.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

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.

During 2016 the Society continued to embed the Senior Insurance Managers Regime (SIMR) which provides the regulatory framework for the standards of fitness and propriety, conduct and accountability to be applied to individuals in positions of responsibility.

Management Committee training

Members of the Management Committee participate in regular training programmes. These programmes are designed to address, amongst other issues, regulatory developments, product awareness, anti-money laundering procedures, 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 have attended external seminars organised through the Association of Financial Mutuals (AFM). 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 2016 the Committee met to conduct Society business on ten occasions, including a 2-day event in June. A further day each year is 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 Audit and Risk Management sub-Committee and With Profits Advisory Arrangement 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 internal control,
- review the arrangements for identifying and evaluating risks in relation to its current and future activity in accordance with the Business Plan
- 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,

The Audit & Risk Management sub-Committee met five times during the year and those meetings were also attended by the senior management. On two occasions the external auditors were present and on three occasions representatives from the internal audit firm attended. 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 as deemed appropriate.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

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.

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

With Profits Advisory Arrangement

During 2016 the Society set up its With Profits Advisory Arrangement (WPAA), which held its inaugural meeting in December. The purpose of the WPAA is to protect the interests of with profits policyholders and ensure that the With Profits Fund is managed in accordance with the Principles and Practices of Financial Management (PPFM). The WPAA is advisory in nature i.e. it is not a decision-making body; instead its role is to inform the decision making of the Management Committee. The WPAA is made up of three members of the Management Committee, including a qualified actuary. It is supported by the With Profits Actuary.

The main responsibilities of the WPAA are:

- To assess, report on and provide advice to the Management Committee on the manner in which the With Profits business is administered in accordance with the PPFM;
- To review the way in which the Management Committee exercises its discretion in the management of the With Profits Fund including matters relating to the calculation and application of asset shares, smoothing and bonus calculations;
- To challenge any significant changes to the risk profile or investment strategy of the Society;
- To assess the performance of the With Profits Actuary.

The terms of reference of the WPAA and the PPFM (including a customer friendly version) are available on the Society's website.

Report of the Management Committee to With Profits Policyholders

The Society is required to produce a report for with profits policyholders explaining how it has administered the With Profits Fund, complied with the PPFM and exercised its discretion in making decisions, for example around the declaration of bonuses. This report will be available on the Society's website before 30 June 2017.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Attendance at meetings

Individual attendances at meetings during the year were as follows:

	Management Committee	Audit & Risk Management	With Profits Advisory Arrangement
Joe Goolamier	9/10	-	-
Alan Edwards **	1/10	1/5	-
Joe McKenna	10/10	5/5	-
Alan Rich	4/4	-	-
Roger Frier	10/10	4/5	1/1
Lee Davies	7/10	-	1/1
Terry Brushfield-Hodges	10/10	-	-
Marc Bicknell	3/7	3/4	-
Moira Casey	8/8	1/1	1/1
Robert Leddington*	10/10	5/5	1/1

* 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.

** The Management Committee approved a temporary leave of absence for Alan Edwards due to his work commitments within the railway industry.

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. Many of the Management Committee are based in the workplace from which the membership is drawn and have regular contact with many of them. They are directly aware 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 this.

In providing assurances to the Management Committee in relation to the system of internal control, 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

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

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 Chief Actuary, who is independent of the Society, on the financial position of the long-term insurance business, the Society's insurance liabilities and solvency position.

Audit finding reports issued by the internal audit firm are distributed to all members of the Management Committee. 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 income and expenditure of the Society for that period. In preparing those financial statements, the Management Committee is required to:

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

The Committee is also responsible for safeguarding the assets of the Society and for taking reasonable steps to prevent and detect fraud and other irregularities.

The Committee is also responsible for ensuring that the Society:

- keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the regulators under the Financial Services and Markets Act 2000

The Committee confirms, to the best of its knowledge, that 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

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

Viability statement

The Management Committee has assessed the prospects of the Society and its ability to meet its liabilities as they fall due over the medium term. It has concluded that five years is an appropriate period for the assessment given that this is the key period of focus within the Society's strategic planning process. The purpose of the planning process is to look at key strategic choices facing the Society and to consider various scenarios taking into account the principal risks and challenges.

The Society uses a five year business planning model as part of its Own Risk and Solvency Assessment. Assumptions are built in for the income statement, balance sheet and cash flow. Additionally, the Society's Chief Actuary undertakes actuarial modelling in the form of the Forward Looking Assessment of Solvency. Each of these reports focuses on the Society's forecast of business activity over a ten year period, stress tested with a variety of scenarios, risk analyses and the impact of changes to assumptions.

Based on the results of these processes the Management Committee has a reasonable expectation that the Society will be able to continue in operation and to meet its liabilities as they fall due over the five year period of its assessment.

Statement of Compliance with the Annotated Corporate Governance Code

The Management Committee considers that throughout the year ended 31st December 2016, 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:

Did the Chairman on appointment meet the independence criteria?

At the time of his appointment the Chairman met the independence criteria, except for the 9-year rule, having served for a period of 11 years at that time. However, the Management Committee considers that this does not adversely affect his independence or judgement.

Does the board include a combination of executive and non-executive directors (including independent non-executive directors)?

There are no executive directors. There are suitably qualified professionals within the management team but they are not members of the board. From February 2017 the position of Chief Executive will confer membership of the Management Committee.

Does the Society have a diversity policy?

There is not a separate diversity policy. All appointments are based on merit. The Board is firmly committed to the principles of diversity and to ensuring that its make up is representative of the membership.

Were the chairmen or any non-executive directors appointed using an external consultancy?

External consultancies were not used in the recruitment process. It is not believed that this is necessarily inappropriate given the scale and nature of the organisation. External advice and support are sought if considered necessary.

Is a significant proportion of executive directors' remuneration structured so as to link rewards to corporate and individual performance?

The Society's remuneration structure does not incorporate a performance related component. Salaries are set at a level considered to be appropriate for the role.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Does the Society put the external audit contract out to tender at least every ten years?

No, the Society considers the appropriateness of the appointment annually, but does not put it out for tender automatically every ten years. The Management Committee accepts recommendations put forward by the Audit and Risk Management sub-Committee regarding the reappointment of the external auditor, taking into account their length of tenure.

For the reasons explained above 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 30th March 2017
and signed on its behalf

J W Goolamier
Chairman

Railway Enginemen's Assurance Society Limited

REMUNERATION REPORT

REMUNERATION REPORT

For the year ended 31 December 2016

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. 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. In addition, they are paid an annual retainer fee. Travelling and subsistence allowances are also paid where appropriate.

During early 2016 it was decided that Management Committee remuneration should be subject to a full review and benchmarking exercise. This was in light of the introduction of Solvency II, together with increased regulatory responsibility and the enhanced level of individual accountability that comes with the Senior Insurance Managers Regime. The resulting increases to fees were applied from 1 July 2016.

For the period 1 January 2016 to 30 June 2016, the daily allowance remained at £247 (2015: £247). Annual retainer fees were paid at the following rates (previous year figures in brackets): Chairman - £2,725 (£2,725); sub-Committee Chairman - £2,040 (£2,040); sub-Committee member - £1,700 (£1,700); Management Committee member £1,360 (£1,360).

For the period 1 July 2016 to 31 December 2016, the daily allowance was increased to £300. Annual retainer fees were increased to the following rates: Chairman - £9,000; professional Management Committee member - £6,000; lay Management Committee member - £3,000. It was agreed that the chairs of the Audit and Risk Management sub-Committee and With Profits Advisory Arrangement would receive an additional annual fee of £1,000.

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, introducer payments, salary, benefits and pension contributions for 2016 were as follows:

	Fees and allowances £	Introducer Payments £	Salary £	Benefits £	Pension cost £	Total 2016 £
J W Goolamier	9,923	-	-	-	-	9,923
A Edwards	3,139	918	-	-	-	4,057
J McKenna	7,189	-	-	-	-	7,189
A D Rich*	2,162	56	-	-	-	2,218
R G Frier	8,986	-	-	-	-	8,986
L P Davies	4,698	705	-	-	-	5,403
R T Brushfield-Hodges	5,109	-	-	-	-	5,109
M A Bicknell**	4,679	-	-	-	-	4,679
M A Casey	5,735	-	-	-	-	5,735
R Leddington***	-	-	105,750	3,744	18,927	128,421
	51,620	1,679	105,750	3,744	18,927	181,720

Railway Enginemen's Assurance Society Limited

REMUNERATION REPORT

The comparative figures for 2015 were as follows:

	Fees and allowances £	Introducer Payments £	Salary £	Benefits £	Pension cost £	Total 2015 £
J W Goolamier	5,836	-	-	-	-	5,836
A Edwards	4,394	380	-	-	-	4,774
J McKenna	5,937	-	-	-	-	5,937
A D Rich	3,242	262	-	-	-	3,504
J S Turner****	1,574	-	-	-	-	1,574
R G Frier	6,049	-	-	-	-	6,049
L P Davies	2,795	361	-	-	-	3,156
R T Brushfield-Hodges	3,702	-	-	-	-	3,702
R Leddington	-	-	98,200	3,671	17,532	119,403
	33,529	1,003	98,200	3,671	17,352	153,935

*Alan Rich retired from the Management Committee at the conclusion of the 2016 Annual General Meeting

** Marc Bicknell resigned from the Management Committee on 2 October 2016 to take up the position of Chief Executive designate for the Society. The remuneration disclosed above relates to his Management Committee role only.

***Robert 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.

****John Turner retired from the Management Committee at the conclusion of the 2015 Annual General Meeting.

Some members of the Management Committee are also Depot Introducers for the Society and receive a payment for each policy introduced by them. It is considered that the relatively small 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 2016 the total paid in respect of these services amounted to £12,193 (2015: £11,909). Roger Frier carried out a number of advisory projects on behalf of the Society for which he was paid fees of £4,608 (2015: £5,562). It is considered that provision of these services does not impact either their independence or judgement as Management 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
30th March 2017

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

Opinion on financial statements

We have audited the financial statements on pages 26 to 47. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2016 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

Management Committee's assessment of the principal risks that would threaten the solvency or liquidity of the Society

We have nothing material to add or to draw attention to in relation to:

- the Management Committee's confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated,
- the Management Committee's statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Management Committee's explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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:

- valuation of the technical provisions

Technical provisions are a significant and complex element of the financial statements and involve a significant degree of judgement in their calculation. The Society is advised on the actuarial matters, including the determination of technical provisions by the Chief Actuary. To assist the Management Committee in their consideration of this and other actuarial matters, the Chief Actuary prepares a series of reports, including one regarding the assumptions and methodology for the actuarial valuation at 31 December 2016.

Our response:

For audit purposes, we appointed an independent Reviewing Actuary, as an expert, to assist us in our consideration of the technical provisions and related disclosures in the financial statements, and to review the work of the Chief Actuary.

We attended the Management Committee meeting at which the Chief Actuary presented her reports relating to the actuarial valuation at 31 December 2016. We have followed up issues identified on

reading the Chief Actuary's reports, attending the Management Committee meeting and reviewing the accounting for and disclosures relating to the technical provisions and sought clarification where required from management, the Management Committee, the Chief Actuary and the Reviewing Actuary.

With the assistance of the Reviewing Actuary, we have reviewed the Chief Actuary's reports, confirmed our understanding of the basis of the determination of the technical provisions and assessed the appropriateness of the valuation methodology and the key assumptions. We have also assessed the competence, capabilities and objectivity of the Chief Actuary and considered the competence, capabilities and objectivity of the Reviewing Actuary. We have also reviewed the disclosures relating to the long term insurance contracts and capital requirements as set out in Note 17.

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 would 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 work was designed to address the risks of material misstatements identified to the level of materiality indicated above.

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

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/auditscopeukprivate>

Opinion on other matter 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 Corporate Governance Report appropriately discloses those matters that we communicated to the Management Committee which we consider should have been disclosed.

The Management Committee have chosen to voluntarily comply with the UK Corporate Governance Code – An Annotated Version for Mutual Insurers (“the Code”) issued by the Association of Financial Mutuals. Under the terms of our engagement we were requested to review:

- the Management Committee’s statements, set out on pages 19 and 29, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Report on pages 19 and 20 relating to the Society’s compliance with the provisions of the Code specified for our review.

Respective responsibilities of the Management Committee and auditor

As more fully explained in the Management Committee’s Responsibilities Statement on pages 18 to 19, management are responsible for preparing the financial statements and being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s (APB’s) Ethical Standards for Auditors.

CHARLES FRAY (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
St Philips Point
Temple Row
Birmingham
B2 5AF
Date

Railway Enginemen's Assurance Society Limited

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

	<i>Notes</i>	2016 £	2015 £
TECHNICAL ACCOUNT – LONG TERM BUSINESS			
Income			
Earned premiums		4,556,047	4,360,562
		-----	-----
Investment Income	3	1,185,701	1,366,720
Unrealised gains/(losses) on investments		1,516,225	(559,748)
		-----	-----
		2,701,926	806,972
		-----	-----
Total Income		7,257,973	5,167,534
		-----	-----
Expenditure			
Claims incurred	4	4,047,900	3,966,415
Change in technical provision	12	1,889,200	489,738
		-----	-----
		5,937,100	4,456,153
		-----	-----
Net Operating Expenses			
Acquisition costs		198,842	223,009
Administrative expenses	6	964,155	687,921
		-----	-----
		1,162,997	910,930
		-----	-----
Total Expenditure		7,100,097	5,367,083
		-----	-----
Excess / (shortfall) of income over expenditure before taxation	5	157,876	(199,549)
Taxation	9	(49,650)	(26,928)
		-----	-----
Transfer to / (from) Own Funds	12	108,226	(226,477)
		=====	=====

All income and expenditure arises from continuing operations.

Railway Enginemen's Assurance Society Limited

STATEMENT OF FINANCIAL POSITION

31 December 2016

	<i>Notes</i>	2016 £	2015 £
Investments	10		
Land and buildings		1,242,000	1,197,000
Other financial investments – long term fund		30,726,373	29,110,581
		<hr/>	<hr/>
		31,968,373	30,307,581
Debtors			
Debtors from direct insurance operations – Members		403,525	326,817
Other debtors		19,221	24,261
		<hr/>	<hr/>
		422,746	351,078
Other assets			
Tangible fixed assets	11	22,188	27,230
Cash at bank and in hand		742,806	372,830
		<hr/>	<hr/>
		764,994	400,060
Prepayments and accrued income			
Accrued interest		390,536	416,828
Other prepayments and accrued income		50,189	37,072
		<hr/>	<hr/>
		440,725	453,900
TOTAL ASSETS		<hr/> <hr/>	<hr/> <hr/>
		33,596,838	31,512,619

Railway Enginemen's Assurance Society Limited

STATEMENT OF FINANCIAL POSITION

31 December 2016

	<i>Notes</i>	2016 £	2015 £ (as restated note 12)
Own Funds	12	5,439,634	5,331,408
Technical provisions			
Technical provisions	12	27,895,399	26,006,199
Claims outstanding		56,768	62,802
		<hr/>	<hr/>
		27,952,167	26,069,001
Provision for other risks and charges			
Deferred taxation	9	-	-
Creditors			
Other creditors including taxation and social security	13	56,203	9,897
Accruals and deferred income		148,834	102,313
		<hr/>	<hr/>
TOTAL LIABILITIES		<u>33,596,838</u>	<u>31,512,619</u>

Approved and authorised for issue by the Management Committee on

30th March 2017

J W Goolamier – Chairman

R G Frier – Deputy Chairman

M A Bicknell – Chief Executive & Secretary

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Basis of Accounting

The financial statements have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) and Financial Reporting Standard 103 (FRS 103) as issued by the Financial Reporting Council and the Friendly Societies (Accounts and Related Provisions) Regulations 1994.

As permitted by FRS 103 on Insurance Contracts, the Society has applied accounting practices for insurance contracts as disclosed in note 12. This includes the restatement of 2015 comparatives to reflect Solvency II rather than Solvency I requirements. This is believed to be more relevant and in accord with regulatory reporting requirements.

The financial statements have been prepared on the historical cost basis, except for the modification to a fair value basis for certain investments as specified in the accounting policies below.

The preparation of financial statements to conform to FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies selected for use by the Society. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below. Use of available information and application of judgement are inherent in the formation of estimates. Actual outcomes in the future could differ from such estimates.

Going Concern

After reviewing the Society's forecasts and projections, the Management Committee has a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. The Society therefore continues to adopt the going concern basis in preparing its financial statements.

Earned Premiums

Earned premiums represent individual periodic member contributions due in the accounting period.

Investment Income

Investment income includes dividends, interest, gains and losses on the realisation of investments, and rents. Dividends are included as investment income on receipt and are grossed up for applicable tax credits. Fixed interest income, rents 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 sale proceeds and the valuation at the previous Statement of Financial Position 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 Statement of Financial Position 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 are accounted for at the earlier of the payment date or when the policy ceases to be included within the long term business provision. The value of claims includes bonuses paid or payable. Surrenders are accounted for at the payment date.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

Provisions are adjusted at the Statement of Financial Position date to represent an estimate of the expected outcome.

Bonuses

The provision for bonuses is included within the calculation of the technical provision.

Acquisition Costs

Acquisition costs comprise the amount of direct and indirect costs arising from the obtaining and processing of new business. All acquisition costs are expensed in the periods in which they are incurred.

Pension Contributions

The Society contributes to defined contribution personal pension plans for staff. The contributions are charged on an accruals basis.

Taxation

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

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 Statement of Financial Position 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 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.

Investment Property

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value at the reporting date. Gains or losses arising from changes in the fair value of the investment property are included in profit or loss for the period in which they arise.

External independent valuers, with appropriate recognised professional qualifications and current experience of the location and type of building being valued, value the Society's investment property annually. Fair values are based on market values. Market values are the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing.

Other Financial 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 provision for any potential losses.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

Tangible Assets

Tangible assets are stated at cost less accumulated depreciation. Depreciation is provided on all tangible assets, excluding the asset below, to write down each asset to its estimated residual value evenly over its expected useful life using the straight-line method. The rates applicable are:

Fixtures, fittings and equipment	5 years
Motor vehicles	4 years

Any asset deemed to have a high residual value and a very long useful economic life will remain at cost. Any such asset will be subject to an annual impairment review.

Long Term Insurance Liabilities

In previous years the Society reported its technical provisions on a Solvency I basis in accordance with the requirements of the Prudential Sourcebook for Insurers.

Following the implementation of the Solvency II Directive in January 2016 the Society's technical provisions are now valued on a Solvency II basis, comprising the best estimate of liabilities plus the risk margin.

The technical provisions are determined by the Management Committee on the advice of the Chief Actuary as part of the annual actuarial valuation of the Society's assets and liabilities. The technical provisions are calculated on a Solvency II basis in accordance with the requirements of the Delegated Text and associated guidelines.

The technical provisions in the financial statements reflect the results of the valuation, with the comparative figures being updated to a Solvency II basis as detailed in Note 12. The best estimate method makes sufficient provisions for all future cash flows including claim payments, expenses and premiums due. The risk margin element is intended to be the balance that another insurer would require in addition to the best estimate to take on all of the liabilities at the valuation date.

Cash Flow Statement

Under Section 7 of FRS 102 the Society is exempt from the requirement to prepare a cash flow statement on the grounds that it is a mutual life assurance company.

Foreign Currencies

Investment assets denominated in foreign currencies are translated to sterling at rates of exchange at the end of the year. Purchases and sales of investments denominated in foreign currencies are translated at the rates prevailing at the date of the transactions. Exchange differences are recognised in profit or loss as part of the realised and unrealised gains and losses on investments in the period in which they arise.

Own Funds (previously Fund for Future Appropriations)

The Own Funds represent the excess of assets over and above the long-term insurance contract liabilities and other liabilities. The own fund 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. Any surplus or deficit for the year arising through the Statement of Comprehensive Income is transferred to or from own funds.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

Technical Provisions

The valuation of the Society's individual policy liabilities is a best estimate of future cash flows discounted to present value plus a risk margin. This inherently includes assumptions regarding future cash flows.

The assumptions used for mortality are based on standard industry tables, adjusted where appropriate to reflect the Society's own experience. The assumptions for morbidity are based on the Society's past disability experience. The assumptions used for investment returns, expenses, lapse and surrender rates are based on risk-free rates, product characteristics and relevant claims experience.

Due to the long-term nature of these obligations, the estimates are subject to uncertainty.

Fair Value of Financial Assets

Market observable inputs are used wherever possible. In the absence of an active market, estimation of fair value is achieved by using valuation techniques such as recent arm's length transactions.

2. CAPITAL AND RISK MANAGEMENT

This section details the capital and risk management approach of the Society. The Society seeks to create value for its members by investing in the development of the business while maintaining an appropriate level of capital.

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

The Society's appetite for risk is limited. The Society uses a Risk Appetite Statement to monitor key risks against appropriate benchmarks and trigger points that prompt management actions where necessary.

Measurement and Monitoring of Capital

The capital position of the Society is monitored on a regular basis and reported formally to the Management Committee on a monthly basis. The Society maintains a benchmark for the assets in excess of the technical provision and minimum capital requirement.

In the event that insufficient capital is available, actions would be taken in accordance with the Society's Risk Appetite Statement. This would include, but not be limited to, changes to investment strategy, bonus rates, surrender values or business volumes.

Fund Valuation

The whole of the Society's assets and liabilities are subject to an annual actuarial valuation in accordance with the Solvency II Directive using assumptions and methods in line with the Delegated Text and associated guidelines. Allowance is made for actions that management would take in adverse conditions, such as making changes to investment strategy, bonus rates, surrender values or business volumes.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

3	INVESTMENT INCOME	2016	2015
		£	£
	Income from investments:		
	Listed	861,460	1,032,223
	Land and buildings	66,960	19,659
	Mortgage interest	15,056	15,383
	Other interest receivable	59,526	62,155
		<hr/>	<hr/>
		1,003,002	1,129,420
	Net gains on realisation of investments	182,699	237,300
		<hr/>	<hr/>
		1,185,701	1,366,720
		<hr/> <hr/>	<hr/> <hr/>
4	CLAIMS INCURRED	2016	2015
		£	£
	Claims for benefit:		
	Retired members (aged 65)	65,235	43,658
	(aged 60)	165,221	87,413
	Disabled members	87,211	185,707
	Deceased members	75,014	47,582
	Endowments	2,555,040	2,750,709
	Surrenders	1,100,179	851,346
		<hr/>	<hr/>
		4,047,900	3,966,415
		<hr/> <hr/>	<hr/> <hr/>
5	EXCESS OF INCOME OVER EXPENDITURE BEFORE TAXATION	2016	2015
		£	£
	Excess of income over expenditure before taxation is stated after charging:		
	Depreciation	9,872	9,066
	Profit on disposal of tangible assets	-	4,708
	Property management charges	6,481	3,080
	Fund management charges	90,744	85,008
	Auditor's remuneration:		
	Audit services	57,770	48,720
	Non-audit services	5,280	3,600
	Actuary's remuneration	117,680	83,775
		<hr/> <hr/>	<hr/> <hr/>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

6	ADMINISTRATIVE EXPENSES	2016 £	2015 £
	Staff costs	482,173	301,967
	Premium collection services	49,365	50,018
	Expenses of committees and agents	69,820	49,248
	General office expenses	118,001	109,913
	Professional fees	244,796	176,775
		<hr/>	<hr/>
		964,155	687,921
		<hr/> <hr/>	<hr/> <hr/>
7	EMPLOYEES	2016	2015
	The average monthly number of persons employed by the Society during the year was:		
	Administration	7	6
	Acquisition	1	1
		<hr/>	<hr/>
		8	7
		<hr/> <hr/>	<hr/> <hr/>
		2016 £	2015 £
	Staff costs for the above persons:		
	Wages and salaries	432,614	290,967
	Social security costs	41,781	32,672
	Other pension costs	83,778	51,040
		<hr/>	<hr/>
		558,173	374,679
		<hr/> <hr/>	<hr/> <hr/>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

8 CHIEF EXECUTIVE AND COMMITTEE MEMBERS

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

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

	2016 £	2015 £
Emoluments paid to members during the year were:		
Fees and allowances	51,620	33,529
Salaries and benefits in kind	109,494	101,871
Pension costs	18,927	17,532
	<hr/>	<hr/>
	180,041	152,932
	<hr/> <hr/>	<hr/> <hr/>

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

	2016 No.	2015 No.
Not more than £5,000	4	5
More than £5,000 but not more than £10,000	5	3
More than £100,000 but not more than £105,000	-	1
More than £105,000 but not more than £110,000	1	-
	<hr/>	<hr/>
	10	9
	<hr/> <hr/>	<hr/> <hr/>

	2016 £	2015 £
Chairman: Emoluments	9,923	5,836
	<hr/>	<hr/>
	9,923	5,836
	<hr/> <hr/>	<hr/> <hr/>

	2016 £	2015 £
The highest paid member: Remuneration	105,750	98,200
Benefits in kind	3,744	3,671
	<hr/>	<hr/>
Emoluments	109,494	101,871
	<hr/> <hr/>	<hr/> <hr/>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

9	TAXATION	2016 £	2015 £
	Current tax:		
	UK Corporation tax on profits of the period	38,263	-
	Irrecoverable tax on franked investment income	11,387	26,928
	Adjustment in respect of previous periods	-	-
		49,650	26,928
	Total current tax		
	Deferred tax:		
	Origination and reversal of timing differences		
	current year	-	-
	prior year	-	-
		-	-
	Total deferred tax		
		-	-
	Tax on surplus on ordinary activities	49,650	26,928
		49,650	26,928
		2016 £	2015 £
	DEFERRED TAX:		
	Movement in deferred tax for the period:		
	At 1 January	-	-
	(Credit) in profit and loss account	-	-
		-	-
	At 31 December	-	-
		-	-
	The deferred tax (asset) / liability comprises:		
		Provided	Unprovided
		2016	2015
		2016	2015
		£	£
	Accelerated capital allowances and other short term timing differences	3,191	3,880
	Unrealised gain/(loss) on investments	(55,792)	-
	Revaluation of investments	90,300	(3,880)
	Capital losses	(37,699)	-
	Excess management expenses	-	-
		-	-
		-	-
		-	(16,822)
		-	(105,091)

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 2016

10	INVESTMENTS	2016	2015
		£	£
	Freehold Land and buildings		
	Investment property	942,000	907,000
	Office property	300,000	290,000
		<u>1,242,000</u>	<u>1,197,000</u>

The Society's investment properties were professionally valued at 31 December 2016 by Walker Singleton, Chartered Surveyors, on an open market basis.

The Society occupied property, was professionally valued by Plant Bolton Gough, Chartered Surveyors, at 31 December 2016 on an open market basis.

The Society is in negotiation to acquire a further investment property. As at 31 December 2016 contracts had not been exchanged.

Other financial investments:

	Market value		Historic cost	
	2016	2015	2016	2015
	£	£	£	£
Listed:				
British Government and Local Authority stocks	8,239,934	7,891,919	8,069,903	7,920,021
UK and Overseas Equities	6,324,047	5,137,974	5,528,026	5,164,511
Unit & Investment Trusts	3,303,376	3,627,819	2,812,488	3,539,245
UK and Overseas Fixed Interest Securities	11,585,796	11,116,413	11,311,484	11,183,102
	<u>29,453,153</u>	<u>27,774,125</u>	<u>27,721,901</u>	<u>27,806,879</u>
Unlisted:				
Loans secured by mortgages	278,385	283,145	278,385	283,145
Other loans	994,835	1,053,311	994,835	1,053,311
	<u>30,726,373</u>	<u>29,110,581</u>	<u>28,995,121</u>	<u>29,143,335</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 2016

11 TANGIBLE ASSETS	Motor vehicles £	Fixtures, fittings and equipment £	Total £
Cost			
1 January 2016	29,034	105,629	134,663
Additions	-	4,830	4,830
Disposals	-	-	-
	-----	-----	-----
31 December 2016	29,034	110,459	139,493
	-----	-----	-----
Depreciation			
1 January 2016	7,259	100,174	107,433
Charge for the year	7,259	2,613	9,872
Eliminated on disposals	-	-	-
	-----	-----	-----
31 December 2016	14,518	102,787	117,305
	-----	-----	-----
Net book value			
31 December 2016	14,516	7,672	22,188
	=====	=====	=====
31 December 2015	21,775	5,455	27,230
	=====	=====	=====

12 RESERVES AND TECHNICAL PROVISIONS

	Own Funds £	Technical Provisions £	Provision for bonuses: Reversionary £
31 December 2015 – as previously stated	6,793,502	24,027,475	516,630
Solvency II basis adjustment – see (i) below	(1,170,094)	1,686,724	(516,630)
Effect of correction of error – uplift factor – see (ii) below	(292,000)	292,000	-
	-----	-----	-----
Revised figures 1 January 2016	5,331,408	26,006,199	-
Transfer from technical account	108,226	1,889,200	-
	-----	-----	-----
31 December 2016	5,439,634	27,895,399	-
	=====	=====	=====

The whole of the Society's assets and liabilities are subject to an annual actuarial valuation in accordance with the Delegated Text and associated guidelines.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

12 RESERVES AND TECHNICAL PROVISIONS (CONTINUED)

The valuation is carried out by the Chief Actuary, Mrs Alison Carr of Steve Dixon Associates LLP. The Reserves and Technical Provisions in the financial statements reflect the results of the valuation.

(i) Solvency II basis adjustment

The Solvency II Directive came into force on 1 January 2016. As permitted by FRS 103 paras 2.3 and 2.3A, the Society has chosen to apply the rules under the Solvency II Directive for the recognition and measurement of technical provisions.

The Solvency II methodology for determining technical provisions uses the best estimate and risk margin, as opposed to the previous basis which used the net premium method. The best estimate is a calculation of the present value of all future cash flows including claim payments, expenses and premiums due. The risk margin is intended to be the balance that another insurer would require in addition to the best estimate to take on all of the liabilities at the valuation date. Under Solvency II the provision for bonuses is included within the technical provision.

The transition to the use of the Solvency II basis is a change in a measurement basis, which is dealt with as a change in accounting policy. Under FRS 102 paragraph 10.11 a change in accounting policy should be dealt with retrospectively, applying the new accounting policy to comparative information for prior periods.

The Society has requested that the Chief Actuary prepare a Solvency II valuation as at 31 December 2015 for the purpose of preparing a comparative Statement of Financial Position, but could not obtain a comparable valuation be prepared at 31 December 2014 as to do so would be impracticable.

As a result:

- the Society is unable to prepare a Statement of Comprehensive Income for the year ended 31 December 2015 which includes a change in technical provision on a Solvency II basis, comparable with the year to 31 December 2016;
- the Society has not restated the Statement of Comprehensive Income for the year ended 31 December 2015, leaving the change in technical provision recorded on the previously adopted basis; and
- the Society has applied the new accounting policy as at the end of the previous accounting period, resulting in the restatement of the Statement of Financial Position at 31 December 2015, with the corresponding adjustment being made against Own Funds, disclosed as the Solvency II basis adjustment in the table above.

As the Society has not requested a valuation of the technical provisions be prepared at 31 December 2016 on a basis comparable to that used in prior periods, it is unable to disclose the impact of the change in accounting policy on Statement of Comprehensive Income for the year ended 31 December 2016.

(ii) Correction of prior period error – uplift factors

In the course of preparing the actuarial valuation for the year ended 31 December 2016 the Chief Actuary became aware that the Society has a practice of applying an uplift factor to age related policies. This practice has been in place but had not been factored in to prior period actuarial valuations, and therefore an adjustment has been made for this error amounting to £292,000 as at 31 December 2015.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

12 RESERVES AND TECHNICAL PROVISIONS (CONTINUED)

As explained in (i) Solvency II basis adjustment above, the Society has not requested a valuation of the technical provisions to be prepared at 31 December 2014 on a basis comparable to that used at 31 December 2015 and 31 December 2016.

As a result:

- the Society has not restated the Balance Sheet at 31 December 2014 or the Statement of Comprehensive Income for the year ended 31 December 2015 to correct for this error; and
- the Society has corrected the error as at the end of the previous accounting period, restating the technical provision at 31 December 2015 by £292,000, with the corresponding adjustment being made against Own Funds, as detailed in the table above.

13 CREDITORS	2016	2015
	£	£
Payable within 12 months otherwise than by instalments:		
Other creditors including taxation and social security	56,203	9,897
	<u> </u>	<u> </u>

14 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 £72,858 (2015: £41,062).

15 APPOINTED CHIEF ACTUARY AND WITH PROFITS ACTUARY AND REMUNERATION

The appointed Chief Actuary and With Profits Actuary of the Society is Mrs Alison Carr an Actuary with Steve Dixon Associates LLP. The Society has requested her to furnish it with the particulars requested in Section 77 of the Friendly Societies Act 1992. She has confirmed that she is not a member of the Society and that neither she nor her family, nor any of her partners, nor any corporate body of which she is a director or is controlled by her, has any financial or pecuniary interests in the Society, other than fees paid to Steve Dixon Associates LLP for actuarial services, which in 2016 totalled £117,680 (2015: £83,775).

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

16 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.

	2016		2015	
	Number of persons	Amount £	Number of persons	Amount £
Life assurance policies:				
Premiums paid during the year	12	18,626	11	14,374
Total sum assured as at 31 December	10	255,494	10	237,066

Payments of £1,679 (2015: £1,003) have been made to some Committee members in relation to their duties as Depot Introdurers. Further details are provided in the Remuneration Report on page 21.

During the year Mr Roger Frier had a mortgage with the Society. Interest of £13,036 (2015: £13,427) has been charged. At 31 December 2016 £266,064 (2015: £259,984) was owed to the Society in respect of the mortgage.

During the year Mr Terry Brushfield-Hodges was paid £12,193 (2015: £11,909) and Mr Roger Frier was paid £4,608 (2015: £5,562) for consultancy services provided to the Society.

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.

17 FRS 103 LONG TERM INSURANCE CONTRACTS

The Solvency II Directive came into force on 1 January 2016. The Society's technical provisions are now calculated under the Solvency II Directive framework. This is a change in accounting policy as detailed in Notes 1 and 12.

The key change under Solvency II is the basis on which the technical provisions are calculated. The Solvency II methodology uses the best estimate and risk margin, as opposed to Solvency I which used the net premium method. The best estimate is a calculation of the present value of all future cash flows including claim payments, expenses and premiums due. The risk margin is intended to be the balance that another insurer would require in addition to the best estimate to take on all of the liabilities at the valuation date. In line with the change in accounting policy the 31 December 2015 figures have also been updated to a Solvency II basis.

The technical provisions have been calculated by the Chief Actuary in line with methods laid out in the Delegated Text and associated guidelines as implemented in the United Kingdom and Republic of Ireland. The technical provision disclosed within the statement of financial position comprises the best estimate element and the risk margin as detailed in the summary section of this note.

The assumptions used in calculating the technical provisions are as determined by the Management Committee having regard to the advice of the Chief Actuary. An overview of the method used to set the assumptions is included in the following table.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

17 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

Assumptions

The key assumptions are as follows:

Valuation Basis Summary	31 December 2016	31 December 2015	Process for setting assumptions
Methodology	Best estimate and risk margin	Best estimate and risk margin	The method is prescribed by the regulations.
Allowance for expenses	18% of gross premiums	15% of gross premiums	The allowance for expenses is based on the assumed maintenance expenses as a percentage of earned premiums. This is to ensure that the projected expenses in the cash flows used to calculate the technical provisions are sufficient on average over the ten years to cover the projected budget expenses. Investment and acquisition expenses are assumed to be covered within investment returns and new business respectively so no assumptions are included for these two expense categories.
Allowance for future bonus			The actuarial valuation has assumed that future bonus rates will be set to ensure that they are sustainable, with future returns equal to the risk free rate. In practice, we expect higher returns than risk free rates and would aim to reward policyholders through both reversionary and terminal bonuses where appropriate.
Post-1984 policies	0.75%	1.5%	
Pre-1984 policies	1.5%	3.0%	
	and reducing thereafter		

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

17 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

Valuation Basis Summary	31 December 2016	31 December 2015	Process for setting assumptions
Mortality Aged 17 and over Under age 17	65% AMC00/AFC00 ultimate 40% ELT15	50% AMC00/AFC00 ultimate 30% ELT15	The mortality assumptions are based on the Society's average experience over the previous five years, unless the data shows trends that suggest this is not appropriate. AMC00 is generated by the actuarial profession based on experience of UK insured lives during 1999-2002. ELT15 is based on the mortality experience of the population of England and Wales during 1990-92.
Morbidity	35% of the rates derived from the Society's past disability experience	30% of the rates derived from the Society's past disability experience	The morbidity assumptions are based on the Society's average experience over the previous five years, unless the data shows trends that suggest this is not appropriate.
Lapses	6.5% per annum	6% per annum	The lapse assumption is based on the Society's experience over the previous five years.
Investment Returns	Risk-free rates	Risk-free rates	The risk-free rates are provided by EIOPA. A fall in risk-free rates in 2016 has resulted in an increase of £1,538k to the technical provisions.
Tax Taxable policies Tax exempt Policies	0% 0%	20% 0%	Based on the Society's experience. Investment return calculated using the risk-free rates less taxable expenses. Previously a rebate had been assumed but as the Society has paid tax in recent years this is no longer deemed appropriate and taxable policies are now being treated the same as tax exempt.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

17 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

Risk management and control

A key part of the Society's risk management strategy is its system of internal controls. The Management Committee has overall responsibility for the Society's systems of internal control and for reviewing their effectiveness. Their implementation and maintenance is the responsibility of the Chief Executive and Senior Management Team. The Society's policies and procedures are documented and are subject to regular review. The Audit and Risk Management sub-Committee reviews the performance of the internal control systems on an annual basis.

The Society has a risk management strategy in place. This aims to:

- identify key risks
- specify risk thresholds in line with the Society's risk appetite
- put measures in place to maintain risks within specified risk thresholds
- monitor risks appropriately
- highlight necessary action to mitigate risks and their impact

The Society has a risk appetite statement, a risk register (which is reviewed at least annually) and an assessment of the capital required to cover the risks. The Society has a target level of capital greater than that required to cover capital requirements, with the aim of ensuring that the Society can still meet its liabilities and capital requirements in a wide range of future circumstances.

Solvency Capital Requirement (SCR)

In addition to the technical provisions the regulations require the calculation of the SCR which must be held in addition to the technical provisions. The SCR is assessed based on the Society's risks as being sufficient to cover possible losses due to those risks. The Society uses the standard formula methodology approach; this is outlined in the Delegated Text and associated guidelines.

Under the standard formula methodology each individual capital risk, with the exception of operational risk, must be stressed by a factor given within the Implementing Rules. The individual SCR calculated for each risk module is then correlated to provide a gross base SCR. The overall SCR is then calculated by adjusting the gross base SCR for the loss absorbency of technical provisions plus the SCR for operational risk. The following four risk modules apply to the Society's policies:

Market Risk

Market risk is the risk that the value of a financial instrument will fluctuate because of the volatility of market prices. The market risk module considered for the Society's asset portfolio consists of the asset stresses below:

Interest rate

This stress allows for movements in the risk-free rates, used in the valuation of the technical provision. The impact of the change in risk-free rates is measured against both the assets and liabilities.

Equity

The Solvency II Delegated Act requires an immediate fall of 39% plus a symmetric adjustment for equities listed on regulatory markets in countries that are members of the EEA or OECD (and 49% for other equities), although the Society has taken advantage of the ability to assume a lower stress for purchases made prior to 1 January 2016.

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Property

The asset stress allows for an instantaneous fall of 25% in the value of property, including property held via collective investment schemes.

Spread

The spread is an additional return over the risk-free rate earned on bonds and is representation of the riskiness of bond returns.

Currency

The currency risk takes into account the impact of a sharp rise or fall in the currency exchange rates. The currency stress allows for an instantaneous fall of 25% in the sterling market value of non-sterling assets.

Concentration

Concentration risk considers the impact of a large exposure with a particular counterparty.

Correlation

The Implementing Rules take into account the diversification within the asset portfolios by using a correlation matrix. This is because it is unlikely that all these risks (major and individual) will occur simultaneously.

Counterparty risk

The counterparty risk module considers the risk of potential losses due to unexpected default, or deterioration in the credit standing of counterparties and debtors over the ensuing year. The method within the Implementing Rules assesses the probabilities of default and losses given default based on current credit ratings.

Life underwriting risk

The life underwriting risk considers the risk arising from the underwriting of the Society's policies.

The particular risks to be considered are listed below:

Lapse

This stress covers the change in technical provisions as a result of the unexpected change in policyholder surrenders and lapses.

The lapse stress is based on three scenarios, with the scenario having the greatest impact in total liabilities being used to calculate the additional capital to cover lapse risk:

- future lapses 50% higher than expected
- future lapses 50% lower than expected
- mass lapse of 40% of in-force business, a one-off event

Mortality

This stress covers the loss or change in technical provisions following a permanent 15% increase in the expected mortality.

Longevity

This stress covers the loss or change in technical provisions following a permanent 20% decrease in the expected mortality. As the effect for the Society is to reduce liabilities and have no effect on assets, the stress is therefore assumed to be nil.

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17 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

Morbidity

This stress covers the loss or change in technical provisions following a permanent increase in expected morbidity. The disability inception stress is based on 35% increase in disability claims in the first 12 months from the valuation date and then 25% thereafter.

Expense

This is the stress that expense levels of administering the in-force policies are higher than assumed. This can arise from an increase in expenses through inflation or unexpected costs.

The expense stress is a permanent 10% increase in administration expenses plus a 1% increase per annum in expense inflation.

Life Catastrophe

This stress relates to the risk of loss or change in the technical provisions relating to the outbreak of major epidemics as well as the unusual accumulation of risks under extreme circumstances.

The life catastrophe stress is a 0.15% increase in mortality rates for each policy where the payment of benefits is dependent on the policyholders' survival or death.

Operational risk

Operational risk is the risk of loss arising from the inadequate or failed internal processes from personnel and systems or external events.

Summary

The total assets in excess of capital requirements:

	2016	2015
	£'000	£'000
Market value of assets	33,597	31,513
Other liabilities	(262)	(175)
Total available capital resources	<u>33,335</u>	<u>31,338</u>
Technical provisions:		
Best Estimate	(25,930)	(25,141)
Risk Margin	(1,965)	(866)
	<u>27,895</u>	<u>26,007</u>
Own funds	5,440	5,331
Minimum Capital Requirement (MCR)	(3,332)	(2,657)
Assets in excess of capital requirements	<u><u>2,108</u></u>	<u><u>2,674</u></u>

Basis of Capital Requirement

The Capital Requirement is the higher of the Minimum Capital Requirement (MCR), set by Solvency II Regulations, and the Society's Solvency Capital Requirement. The MCR is set at €3.7million, which is translated into sterling based on the euro:sterling exchange rate on 31 October each year as declared by the European Commission. The MCR at 31 December 2016 was £3,331,850 (2015: £2,657,340). This increase relates solely to the movement in the euro:sterling exchange rate. The calculated SCR for the Society at 31 December 2016 was £2,762,580 (2015: £216,588). This increase of £2,545,992 is attributable principally to the following factors:

- An increase in capital requirement arising from a reduction in the loss absorbency of technical provisions due to a reduction in assumed future reversionary bonuses.

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17 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

- A decrease in capital requirement arising from an increase in the quantum of future surrender values (due to higher assumed lapse rates and ageing of the portfolio, but partly offset by lower surrender factors).
- An increase in capital requirement due to an increase in equity stress within the market risk component which is itself due to an increase in the required stress factors which apply.
- An increase in the capital requirement relating to currency risk due to a higher amount being held in foreign currency assets.

Movement in Technical Provisions

The Society's total technical provisions moved from £26,006,199 at 31 December 2015 to £27,895,399 at 31 December 2016.

The table below summarises the movement in technical provisions during the year:

Movement in technical provisions:	2016
	£'000
Technical provisions at 1 January 2016	26,006
Change in valuation model	78
Change in data between 2015 and 2016	524
Change in risk-free rates	1,538
Change in mortality assumption	27
Change in morbidity assumption	23
Change in lapse assumption	32
Change in expense assumption	605
Change in tax assumption	297
Change in surrender value factors	(175)
Reduction of future reversionary bonus	(1,060)
Balance at 31 December 2016	<u>27,895</u>