

Railway Enginemen's Assurance Society Limited

ANNUAL REPORT AND
FINANCIAL STATEMENTS

for the year ended

31 December 2019

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 Chair
J McKenna Deputy Chair
A Edwards
R T Brushfield-Hodges
L P Davies
M A Casey
M A Bicknell
D I Storrie
R A J Townsley (appointed 1 April 2019)

CHIEF EXECUTIVE AND SECRETARY

M A Bicknell BA (Hons), ACA

REGISTERED OFFICE
727 Washwood Heath Road
Ward End
Birmingham
B8 2LE

AUDITORS

BHP LLP
2 Rutland Park
Sheffield
S10 2PD

CHIEF ACTUARY AND WITH-PROFITS ACTUARY

Alison E Carr FIA
Steve Dixon Associates LLP
Oaks House
16-22 West Street
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Surrey
KT18 7RG

SOLICITORS

The Wilkes Partnership LLP
41 Church Street
Birmingham
B3 2RT

BANKERS

NatWest Bank plc
6 Parade
Sutton Coldfield
B72 1PL

INVESTMENT MANAGERS

LGT Vestra LLP
14 Cornhill
London
EC3V 3NR

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

INTERNAL AUDITORS

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

THE SOCIETY IS:

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

Railway Enginemen's Assurance Society Limited

MANAGEMENT COMMITTEE'S ANNUAL REPORT

MANAGEMENT COMMITTEE'S ANNUAL REPORT

The Management Committee has pleasure in presenting its Annual Report and the Financial Statements of the Society for the year ended 31 December 2019. The Financial Statements have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994, the Friendly Societies Act 1992 and United Kingdom Generally Accepted Accounting Practice. The Society's technical provisions have been calculated in accordance with the Solvency II Delegated Text and associated guidelines.

BUSINESS OBJECTIVES AND ACTIVITIES

The Society's principal activity is to provide savings plans with life assurance 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.

MANAGEMENT COMMITTEE

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

The names of the Management Committee members are shown on page 2. Changes during the year are detailed within the Report on Corporate Governance.

MANAGEMENT COMMITTEE RESPONSIBILITIES

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 at the year-end 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 being 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 for the foreseeable future.

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

Railway Enginemen's Assurance Society Limited

MANAGEMENT COMMITTEE'S ANNUAL REPORT

The Management 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 and other applicable legislation.

The Management Committee confirms, to the best of its knowledge, that the Annual Report and Financial Statements provide a fair, balanced and understandable view of the Society's financial position and the Strategic Report provides a fair evaluation of the Society's performance and development during the year.

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

STATEMENT OF DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the persons who is a Director at the date of this report confirms that, so far as each of them is aware, there is no information relevant to the audit of the Society's Financial Statements for the year ended 31 December 2019, of which the Auditor is unaware.

Each Director has taken all steps that he/she ought to have taken in his/her duty as a Director to make himself/herself aware of any relevant audit information and to establish that the Society's Auditor is aware of that information.

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 cashflow. Additionally, the Society's Chief Actuary undertakes actuarial modelling in the form of the Forward-Looking Assessment of Solvency. This report focuses on the Society's forecast of business activity over a ten year period, stress tested with a variety of scenarios, risk analysis and consideration of the impact of changes to assumptions.

Since the year-end the Management Committee has assessed the potential implications of the COVID-19 pandemic on the Society's business and performance, including the impact on asset values, solvency, the possibility of increased levels of claims and surrenders and the possibility of short-term reductions in new business levels. As a result of this assessment, the Management Committee has no material concerns relating to the effect of COVID 19 on the Society's viability. Further information is provided in the Strategic Report.

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.

Railway Enginemen's Assurance Society Limited

MANAGEMENT COMMITTEE'S ANNUAL REPORT

COMPLAINTS PROCEDURE

The Society aims to provide the highest possible level of service to its members. 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 registered office. This will be passed on, unopened, to the Committee member concerned. During 2019, there were no reportable complaints.

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 products and its values in the workplace. The strength of our commitment to provide an outstanding level of service is supported by the positive feedback received from our members in response to questionnaires sent out on a regular basis. The Society would not enjoy this level of achievement without the continuing commitment, effort and dedication of our staff. They take pride in serving the membership and we have great pleasure in recording our thanks and appreciation to them.

AUDITORS

A resolution will be proposed to reappoint BHP LLP at the forthcoming Annual General Meeting. BHP LLP has indicated its willingness to continue in office.

Approved by the Management Committee on 9 April 2020 and signed on its behalf.



J W Goolamier
Chair

Railway Enginemen's Assurance Society Limited

STRATEGIC REPORT

STRATEGIC REPORT

Introduction

Against a backdrop of economic and political uncertainty, particularly around Brexit, the Society has continued to generate encouraging levels of new business, whilst containing its overhead costs. We have maintained the focus on our core strengths of exceptional member service and keeping things as simple and straightforward as possible. We also recognise that we are extremely fortunate to have a membership with a strong ethos of self-provision when it comes to 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 remain to:

- Meet its contractual obligations to members
- 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 successfully recruited new Depot Introducers at Bletchley, Bristol Parkway, Cambridge, Chester, Eastbourne, New Cross Gate and Plymouth. We also recruited a new Area Representative to cover the North Midlands region. Our Depot Introducers and Area Representatives are the backbone of the Society and are expected to continue to generate most of the Society's new business for several years to come.

During 2019, we also laid the foundations for additional future growth through the expansion and development of our routes to market. We had been aware for some time of changes in customer behaviour and recognised that some members and prospective members, particularly younger people, wanted to purchase financial services products online. It is vital for the Society's future that we keep pace with the rapid changes within the financial services marketplace and we therefore took the decision during the year to invest in a new website and digital marketing strategy. This was launched in August and we are already seeing a steady uplift in new business through this channel.

The Society is immensely proud of its heritage in the railway industry and is seeking to build on this by developing mutually beneficial partnerships with other organisations which also have a focus on the railway and other transport industries. As part of this, towards the end of 2019, the Railway Employees and Public Transport Association (REPTA) was appointed as an Introducer Appointed Representative for the Society. The Society retains a strong relationship with the train drivers' union, ASLEF. We are also aiming to develop relationships with other recognised trade unions in the railway industry, including the RMT and TSSA.

The Management Committee is conscious that our members have always been our strongest advocates and the key contributor to our ongoing success. In late 2019, we developed a 'Refer a Friend' scheme, which will provide members with a small reward if they are successful in introducing new members to us.

2019 has been an exciting year of development for the Enginemen's. However, as a mutual, we are always conscious that we must exercise prudence when investing members' funds into the development of the Society. It is for this reason that we are delivering on our growth strategy in a measured and cost-conscious way rather than introducing wholesale, expensive changes to our operations.

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In the year 2,347 new policies were admitted. These policies accounted for combined new sums assured of £5,664,316. This healthy level of new business is a major achievement in an uncertain economic climate and a low interest rate environment.

| Policies Summary | 2019 | 2018 |
|-----------------------------------|-------------|-------------|
| Number of policies at 31 December | 18,168 | 18,230 |
| Number of members | 4,374 | 4,444 |
| Number of new policies | 2,347 | 2,025 |

Premiums earned for the year remained fairly stable at £4,424,534 against the £4,455,618 achieved in 2018. The Management Committee continues to be mindful 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 amounting to £4,186,945 were paid out during the year against the £4,087,039 paid out in 2018. 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

The Society continued with a cautious investment strategy, maintaining a healthy solvency position throughout the year and a steady investment income stream. Investment disposals generated net realised gains of £121,003 against the net realised losses of £138,389 incurred in 2018. At the end of the year there were unrealised gains of £1,950,140 in the value of investments held, compared to unrealised losses of £1,172,743 at the end of 2018. The market value of investment holdings at the close of 2019 was £31,253,258, up from £29,609,689 at the close of 2018.

The combined value of the Society's commercial property holdings, along with the head office at Birmingham, totalled £2,920,000, up marginally from the 2018 valuation of £2,892,000.

Additionally, there were bank balances of £1,260,884 at the end of 2019 compared to £413,437 at the end of the previous year.

During 2019, the Society continued to work in close partnership with LGT Vestra in the management of its investment portfolio. The firm's proactive fund management approach supports the identification of suitable opportunities as they arise whilst working within the investment parameters of the Society's risk profile and Investment Policy and the advice of the Chief Actuary. The Management Committee is of the view that it is in members' interests to maintain a reasonable exposure to equities in order to benefit from the potentially 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, in the management of our commercial property portfolio. It is intended to add a further property to this portfolio during 2020.

We take a long-term view of the investment markets, but remain cautious about short-term volatility and the potential for future market corrections. We will continue to work closely with our Chief Actuary and

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STRATEGIC REPORT

our investment and property managers in safeguarding members' funds whilst generating a reasonable return on their investments.

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

| Asset Class | 2019 | 2018 |
|---|-------------|-------------|
| | % | % |
| Property | 8.5 | 8.9 |
| British Government Stocks | 26.0 | 27.1 |
| UK and Overseas Equities | 18.0 | 17.9 |
| Unit Trusts and Investment Trusts | 13.8 | 10.1 |
| UK and Overseas Fixed Interest Securities | 30.9 | 32.3 |
| Loans secured by mortgages | 0.1 | 0.9 |
| Other Loans | 2.7 | 2.8 |
| Total | 100 | 100 |

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.

During 2018, the Society had achieved a significant reduction in both acquisition costs and administrative expenses compared to the previous year. In 2019, the agreed budget saving measures were maintained, but were offset by general inflationary pressures as well as specifically targeted investments in the Society's future growth plans, notably the development of a new website and digital marketing strategy. Acquisition costs increased to £187,506 compared to £156,536 in 2018. Administrative expenses increased to £841,729 compared to £818,128 in 2018.

Risk

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:

Counterparty 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 and spreading the investments over a diverse portfolio. This acts to dilute the impact of any single default occurrence.

Liquidity risk – is where there are insufficient readily available assets to meet liabilities to policyholders as they fall due. The nature of the Society's claims is such that we are able to plan for when policies mature and the cashflows 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 Chief Actuary and investment 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.

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

Operational risk – this refers to potential loss arising from inadequate or failed internal processes, people, systems or external events. It also encompasses legal, information systems and regulatory risks. The Society’s Chief Executive and Finance Manager have a responsibility to understand how operational risks can impact all areas of the business 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 regular 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.

Member Reward

At Railway Enginemen’s we never lose sight of the fact that our sole purpose is to serve the needs of our members by providing them with the products they need, supported by first-class customer service. We have always sought to share our success with the membership through the addition of annual bonuses to their policies and in April 2018 we introduced a final bonus series. Following the 2018 actuarial valuation, we were able to increase final bonus rates. The final bonus rates applicable during the period April 2019 to December 2019, depending on year of policy inception, were as follows:

| Year of Policy Inception | Final Bonus Rate |
|---------------------------------|-------------------------|
| 1974-1975 | 2% |
| 1976-1984 | 0% |
| 1985-1989 | 13.5% |
| 1990-1992 | 11.5% |
| 1993-2001 | 9.5% |
| 2002-2006 | 8% |
| 2007-2008 | 1.5% |
| 2009 | 0.5% |

COVID-19 Pandemic

Since the year-end, the Society has seen the devastating impact on human life of COVID–19. What was initially reported as an unusual pneumonia outbreak in Wuhan, China has become a global pandemic and healthcare systems in those countries most affected have struggled to cope. Restrictions on daily life that would have been unthinkable only a few months ago have been imposed as governments have sought to

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control the spread of the deadly virus. These are having a significant financial impact as large swathes of the economy have been temporarily shut down. As a result of fears over the spread of the virus and the impact of the containment measures being put in place, we have also seen severe downward pressure on share prices and significant stockmarket volatility.

At this point in time, it is too early to make firm predictions as to what the long-term impact will be on the Society's business and performance. This will depend on a number of factors, including the extent and duration of the period of disruption and the impact on the global economy and financial markets. Our expectation, however, is that COVID-19 will represent a one-off significant outside shock that economies and markets can recover from.

Following the market falls relating to COVID-19, the Society decided to adjust its final bonus rates and surrender value factors with the aim of continuing to pay a fair share to those claiming, thus treating all policyholders fairly. The Society's normal practice is to apply smoothing across the year, with its surrender value factors and final bonus rates only changed annually. However, the Society is receiving regular updates on the value of its investments and will change the rates again if justified by asset values rising or falling significantly.

The Society's products are not particularly sensitive to increases in mortality or morbidity, although it is possible that the current situation could lead to an increase in policyholders surrendering their policies. The Society holds a high proportion of its assets in government bonds and has no liquidity concerns if it were to have to pay out for higher than usual claims or surrenders. Policyholders wishing to surrender their policies are also offered policy loans, as an alternative, enabling them to continue to benefit from the guarantees on their policies and from future bonuses.

It is likely that there will be a reduction in new business volumes in the short term, but we do not anticipate this having a significant effect in the long term. However, it will be closely monitored as maintaining business volumes is key, given that expenses are largely fixed in nature.

Throughout its long history, the Society has witnessed a number of periods of stockmarket volatility and economic disruption. Over the years we have worked hard to create our solid financial base and it is this, together with our balanced portfolio of assets, that is enabling us to weather these exceptional market conditions.

The Society is financially healthy and its solvency position is strong. At 31 December 2019, it had Own Funds of 237% of the Solvency Capital Requirement (SCR). Regular estimates of solvency are being made and Own Funds have remained significantly above the SCR at all points since the year-end. A recent approximation as at 31 March 2020 showed the Society had Own Funds of approximately 216% of the SCR. The Society's investments, which are approximately two-thirds bonds, with the remainder mostly in equities plus some property and deposits, have held up well to the market falls with assets at 31 March 2020 approximately 6% below the 31 December 2019 values.

We will continue to closely monitor the impact of COVID-19 on the operating performance of the Society. We will also continue to closely monitor the valuation of assets and the valuation of technical provisions, which are sensitive to movements in risk-free rates. An updated valuation will be carried out and reported to the PRA in the quarterly returns at 31 March 2020. We have no material concerns relating to the effect of COVID-19 on the Society.

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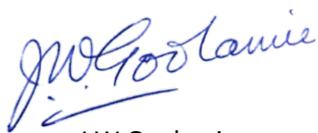
STRATEGIC REPORT

Future Developments

An ability to adapt to market conditions and changing customer expectations is vital for survival and growth, but this does not mean a change of ethos or belief. The solid platform we have established over a number of years is important to our members and we shall continue to work to expand our Depot Introducer network and increase the number of Area Representatives. The foundations that we have laid by developing new distribution channels during 2019 will be built on further in 2020 and beyond. We will also work to expand our product range and enhance our systems to improve the efficiency of our service to members. We are confident of being able to deliver our growth plans without placing undue pressure on our capital resources. The early weeks of 2020 have already seen very encouraging levels of new business. The strategy will continue to be to grow the business organically at a controlled, manageable rate.

We are very positive about the outlook for Railway Enginemen's. Our Society is only as good as our people, and we would like to thank our staff for their continued dedication in supporting the membership. Finally, we would like to thank you, our members for your ongoing loyalty.

Approved by the Management Committee on 9 April 2020 and signed on its behalf.



J W Goolamier
Chair

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

REPORT ON CORPORATE GOVERNANCE

The Society is committed to adopting best practice in Corporate Governance. As a member of the Association of Financial Mutuals (AFM) it uses the AFM's new Corporate Governance Code to demonstrate this. The Code, which took effect from 1 January 2019, comprises six Principles:

- Purpose and Leadership
- Board Composition
- Director Responsibilities
- Opportunity and Risk
- Remuneration
- Stakeholder Relationships and Engagement.

Each of these Principles is broken down into more detailed provisions. This report sets out how they have been adopted by the Society.

PRINCIPLE ONE: PURPOSE AND LEADERSHIP

“An effective board develops and promotes the purpose of an organisation and ensures that its values, strategy and culture align with that purpose.”

Purpose

The Society was founded in 1865 when its sole purpose was to provide support to railway workers. At a time when the country did not operate as a welfare state and when railway companies offered little or no financial support in times of loss or distress this is where the Society could lend a hand. The initial aim was to provide financial support to its members and their families in situations of death or of permanent incapacitation from carrying out their normal duties.

Although we have seen the subsequent introduction of the welfare state, provision of employer schemes and the abundance of other private financial planning opportunities, “the Enginemen's” has continued to this day to remain true to the philosophy of its original concept, aims and purpose. The Society remains committed to providing competitive products that work for its members. This is achieved by straightforward and friendly service in addition to the savings, life and disablement cover benefits provided by its policies.

The Management Committee is responsible for the promotion of a clear and collective vision for the Society. It is firmly committed to ongoing dialogue with members, employees and other stakeholders about the Society's purpose.

Values and Culture

The Society is committed to the mutual model of doing business. The Society's values and culture place members at the heart of everything we do. The Management Committee firmly believes that this culture is critical to the Society's competitive advantage and the creation and protection of long-term value. It ensures that the culture and values are demonstrated throughout the Society, including by staff, Area Representatives and Depot Introducers.

The Management Committee monitors indicators of a healthy culture throughout the year including levels of staff absenteeism rates and turnover. The very low levels of staff turnover are testament to the strong sense of loyalty that staff have to the Society and its membership.

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CORPORATE GOVERNANCE REPORT

Strategy

The overall aims of the Society are to:

- meet its contractual obligations to members,
- 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.

Further information on the Society's strategy, objectives and performance can be found in the Strategic Report.

PRINCIPLE TWO: BOARD COMPOSITION

“Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the organisation.”

Chair

The Chair is responsible for the leadership of the Management Committee, the conduct of its meetings and for ensuring that it acts effectively in the discharge of its duties. The Chair 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 Chair.

The Society operates with a separate Chair and Chief Executive to ensure that the balance of responsibilities and accountabilities are effectively maintained.

The Code indicates that the Chair on appointment should meet specific independence criteria. In 2013 Joe Goolamier was elected as Chair, having been appointed to the Committee in 2002. Although his length of service exceeds nine years, he is considered independent in both his judgement and integrity. In accordance with the Management Committee succession plan, it is intended that Joe will step down as Chair during 2020, but continue to serve as a Non-Executive Member Director. The new Chair will fully meet the independence criteria.

Balance and Diversity

The Management Committee currently comprises a Chair, Chief Executive, two Non-Executive Professional Directors and five Non-Executive Member Directors. A 'Professional Director' is classed as one who possesses an appropriate professional qualification or who has recent and relevant experience within the financial services industry. A 'Member Director' is classed as one who is drawn directly from the membership and has a knowledge of the railway industry in which the Society mainly operates. The Management Committee believes that the balance of knowledge, experience, skills and independence is appropriate although it continues to monitor the situation to comply with regulatory requirements and to reflect the Society's strategy.

As the membership of the Society is largely based on a specific industry occupation, this is reflected in the composition of the Management Committee with the majority of Non-Executive Directors being male railway employees. The remaining Non-Executive Directors are from outside the railway industry. There is one female Director, who is an actuary. During 2019, the Management Committee adopted a Diversity Policy and recognises that greater diversity in gender and ethnic background would benefit the Society.

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CORPORATE GOVERNANCE REPORT

However, competence relevant to the needs of the business remains the overriding criterion for appointment.

During 2019, the Management Committee recruited Andrew Townsley as a new Non-Executive Professional Director. Andrew's commercial insight and financial services expertise is proving to be invaluable to the Management Committee as it oversees the development and growth of the Society.

Size and Structure

Non-Executive Directors of the Management Committee are elected by the membership at Annual General Meetings. In addition, between Annual General Meetings the Committee has the power to co-opt other Non-Executive Directors. All 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.

Members co-opted to the Management 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 Director is required to seek re-election at regular intervals and at least once every three years.

The Management Committee does not consider that the use of external recruitment consultants is essential in the identification and selection of Non-Executive Directors.

Independence

The Management Committee considers that its Non-Executive Directors are independent. There are three Non-Executive Directors 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 of mind. The specific railway industry experience 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. 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. It is intended that over the next few years the Management Committee will move to a position where Non-Executive Directors will not normally have served for more than 9 years.

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

Succession Planning

The Management Committee considers succession planning on a regular basis and there is a succession plan in place. This will be reviewed and improved further in 2020 to ensure that it covers each of the key roles performed by Non-Executive Directors, particularly the regulatory Senior Manager functions.

Effectiveness

The Management Committee undertakes regular evaluations of its performance as a Committee. The results of this exercise help to inform the training requirements of Committee members and skills gaps that need to be addressed through succession planning.

Members of the Management Committee participate in training which is designed to address, amongst other issues, regulatory developments, product awareness, money laundering, data protection, corporate

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CORPORATE GOVERNANCE REPORT

governance and Society specific matters. Members of the Management Committee are able to attend events organised through the Association of Financial Mutuals, as deemed appropriate to their training needs and Committee responsibilities. Additionally, presentations made by the Society's Actuary and by the Fund Managers are designed to further enhance Committee skills. The Society also participates in the Association of Financial Mutuals online training program, which is provided by Skillcast.

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.

Senior Independent Director

The Management Committee has appointed one of the independent Non-Executive Directors as a Senior Independent Director. 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 Chair or Chief Executive. Members having concerns about the Society's business are encouraged to write to the Senior Independent Director, care of the Society's head office. The correspondence will be passed unopened to him.

Combination of Society Secretary and Chief Executive Roles

The Chief Executive and Secretary is Marc Bicknell. The Management Committee remains satisfied, based on the scale and nature of the business, that this combination of the Chief Executive and Secretary roles is appropriate.

Society Secretary

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

Chief Executive

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

PRINCIPLE THREE: DIRECTOR RESPONSIBILITIES

"The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision making and independent challenge."

Accountability

Good governance ensures that the Society has the right safeguards in place and enables every decision it takes to be underpinned by relevant considerations. The Society's Corporate Control Manual and governance maps provide clear lines of accountability and responsibility. The Society's Rules include

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

matters relating to the authority, role and conduct of Management Committee members and the principal rights and responsibilities of members of the Society.

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 the Terms of Reference 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 Financial Statements
- Approval of the Own Risk and Solvency Assessment
- Remuneration
- Appointment and dismissal of the Chief Executive
- Approval of the Business Plan and budgets
- Acquisition / disposal of significant assets

All Directors declare their interests at least annually and any potential conflicts of interests are openly documented and managed. They also complete a declaration of fitness and propriety on an annual basis.

Members of Management Committee

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

Joe Goolamier Joe joined the Management Committee in 2002 and currently serves as Chair. 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 Chair of the Society in June 2013.

Joe McKenna Joe joined the Management Committee in 2006 and currently serves as Deputy Chair, the Chair of the With-Profits Advisory Arrangement and a member of the Audit and 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 also a Director of Chimney Pot Park Management Company Limited.

Marc Bicknell Marc joined the Management Committee in 2017 following the granting of regulatory approval for his appointment as Chief Executive. Marc, a graduate and Chartered Accountant, has substantial management and Board level experience, including non-executive experience within the friendly society sector. In October 2018, he was appointed to the Board of Directors of the Association of Financial Mutuals. He also serves as a Non-Executive Director with Central England Co-operative Society Limited.

Terry Brushfield-Hodges Terry rejoined the Management Committee in 2014, 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

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with the British Rail Pension Schemes and the BRASS AVC Scheme. Since retiring, he has undertaken retail compliance work with the Society.

| | |
|-----------------|--|
| Moira Casey | Moira joined the Management Committee in 2016. She chairs the Society's Audit and Risk Management sub-Committee and is a member of the With-Profits Advisory Arrangement. Moira is a qualified Actuary and brings substantial experience of life and pensions office operations and Solvency II project work to the Society. She is employed as a consultant actuary by OAC plc. |
| Lee Davies | Lee joined the Management Committee in 2013. Lee has served as the Society's Senior Independent Director since 1 August 2019 and is also a member of the With-Profits Advisory Arrangement. He is qualified to FPC 1 level and is a driver with Cross Country Trains operating out of Newcastle. He has also previously served as a school governor. |
| Alan Edwards | Alan joined the Management Committee in 2004 and up until 31 July 2019 served as the Society's Senior Independent Director. He also served on the Audit and Risk Management sub-Committee until 31 July 2019. He has served on the With-Profits Advisory Arrangement since 1 August 2019. A driver with Arriva Rail North based at Sheffield, Alan holds FPC 1 level and is a former school governor. |
| David Storrie | David joined the Management Committee in 2017 and serves on the Audit and Risk Management sub-Committee. An operational driver trainer with Arriva Rail North based at Leeds, David has also previously served as a national list football assistant referee. |
| Andrew Townsley | Andrew joined the Management Committee in April 2019 and also serves on the Audit and Risk Management sub-Committee. Andrew has over 40 years' experience in the financial services industry, most of which have been spent in the mutual sector. In 2016 he retired as Chief Executive of Kingston Unity Friendly Society Limited. During his career he also served as Chief Executive of Sheffield Mutual Friendly Society, Deputy Chief Executive of Vernon Building Society and General Manager of Barnsley Building Society. He was also previously involved in the mutual sector's trade body as a Non-Executive Director of the Association of Financial Mutuals (AFM) and Association of Friendly Societies (AFS) and served as Chair of the AFS in 2007/08. |

Senior Management

Chief Executive & Secretary:

Marc Bicknell Appointed 2017. Chartered Accountant and graduate.

General Manager:

Victoria Herbert Appointed 1999. Qualified financial adviser

Finance Manager:

Lynsey Inglis Appointed 2012. Chartered Accountant and Finance graduate.

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Attendance at Meetings

Individual attendances at meetings during the year were as follows:

| | Management Committee | Audit & Risk Management sub-Committee | With-Profits Advisory Arrangement |
|-----------------------|----------------------|---------------------------------------|-----------------------------------|
| J W Goolamier | 6/7 | n/a | n/a |
| J McKenna | 7/7 | 4/4 | 3/3 |
| M A Bicknell * | 7/7 | 4/4 | 3/3 |
| R T Brushfield-Hodges | 7/7 | n/a | n/a |
| M A Casey | 7/7 | 4/4 | 3/3 |
| L P Davies | 6/7 | n/a | 3/3 |
| A Edwards | 6/7 | 2/3 | 1/1 |
| D I Storrie | 7/7 | 4/4 | 2/2 |
| R A J Townsley | 6/6 | 1/1 | n/a |

* Marc Bicknell, the Chief Executive, is not a member of the Audit and Risk Management sub-Committee or the With-Profits Advisory Arrangement, but participated in meetings as Secretary.

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 and regulatory reporting;
- review the system of internal control;
- review the arrangements for identifying and evaluating risks in relation to the Society's current and future activity in accordance with the Business Plan;
- monitor the role and effectiveness of the external audit process including a review of the external auditor's appointment, fees and independence;
- monitor the role and effectiveness of the internal audit function including a review of the internal auditor's appointment, fees and independence.

The Audit & Risk Management sub-Committee met four times during the year. 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.

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 Financial Statements.

It is considered that the members of the sub-Committee possess the necessary mix of skills and knowledge of the Society that enables 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

The purpose of the With-Profits Advisory Arrangement (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

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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 four 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 WPAA met three times during the year. The WPAA has unfettered access to the With-Profits Actuary and, equally, the With-Profits Actuary has open access to the WPAA and Management Committee as deemed appropriate. The Terms of Reference of the WPAA and the PPFM are available on the Society's website.

Remuneration Committee

The Society does not have a separate Remuneration Committee. The functions of a Remuneration Committee are carried out by the Management Committee. This arrangement is considered appropriate given the scale and nature of the business.

Nominations Committee

The Society does not have a separate Nominations Committee. The functions of a Nominations Committee are carried out by the Management Committee. This arrangement is considered appropriate given the scale and nature of the business.

PRINCIPLE FOUR: OPPORTUNITY AND RISK

"A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks."

Opportunity

Through clear definition of the Society's purpose and values, the Management Committee's decisions are focused on promoting and delivering long-term value for the membership. This is achieved through maintaining an appropriate level of Own Funds and sharing the Society's surpluses with the membership through the addition of reversionary and final bonuses to their policies.

Risk

Effective risk management is fundamental to the Society's strategy as it protects members' funds, ensures the efficient use of capital and helps to deliver the Business Plan. The Society manages its risks within a defined framework. The framework comprises the Risk Appetite Statement, the Capital Assessment of Risks and the Risk Register.

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The Society assesses its risks on an ongoing basis throughout the financial year. Key risks, and the mitigating actions and controls in place to manage them, are recorded in the Risk Register.

The Society's Risk Appetite is reviewed on a regular basis as new risks emerge, or at least annually. The Risk Appetite Statement is translated into risk thresholds and risk trigger points, which are used to manage the Society's solvency.

The Society's Own Risk and Solvency Assessment (ORSA) is a rolling process that provides a detailed analysis of the Society's capital adequacy, risk management and forward-looking perspective. This is achieved using a combination of internal, actuarial and regulatory documents and information to report appropriately on the Society's financial position. The ORSA is carried out in accordance with the Society's ORSA Policy. The intention of the ORSA is to develop an understanding of the risks that the Society is exposed to and the associated capital requirements, thereby improving business decision-making processes.

The Society's systems and controls are designed to manage, rather than to entirely eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not an absolute assurance against a risk materialising.

We are incorporating the financial risk from climate change into our risk management processes. We expect the identification and management of this risk to develop further over the next few years.

Further information on the principal risks facing the Society can be found in the Strategic Report.

Responsibilities

Ultimate responsibility for identifying and managing the risks faced by the Society rests with the Management Committee whilst the Audit and Risk Management sub-Committee has responsibility for the detailed scrutiny of risk management issues.

The Society has adopted Three Lines of Defence principles in its risk management framework. The First Line of Defence is the management activity, checking and validation carried out in accordance with established 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 is responsible for the Second Line of Defence and maintains the Risk Register. The Third Line of Defence is the Internal Audit function, which provides an independent, objective and critical assessment of the design and effectiveness of the Society's internal control, risk management and governance arrangements. The Chair of the Audit and Risk Management sub-Committee has regulatory responsibility for ensuring the effectiveness and independence of Internal Audit. 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 and Risk Management sub-Committee to which they report their findings.

Internal Control

The Society is committed to a regime of high standards of internal control. The Management Committee is responsible for the Society's system of internal control and, through the Audit & Risk Management sub-Committee, reviews its effectiveness.

There is a clear organisational structure with defined authority limits and reporting mechanisms to the Management Committee, which supports a strong control environment. There is a monthly financial and

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CORPORATE GOVERNANCE REPORT

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 Society's technical provisions, capital requirements and solvency position.

PRINCIPLE FIVE: REMUNERATION

"A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation."

Remuneration Policy

The principles underlying the remuneration policy of the Society apply to all employees. These include the following:

- the total remuneration package needs to be sufficient to attract and retain high-calibre individuals, whilst demonstrating value for money for the Society,
- the remuneration package should be appropriately constructed so that it contributes to the retention and motivation of key individuals,
- remuneration packages should reflect the individual's role and responsibilities.

All employees receive a fixed salary that is appropriate to their role. The Society does not use annual bonuses, long-term incentive plans or any other form of variable pay structure. It is the view of the Management Committee that the use of performance criteria can manipulate behaviour as executives may concentrate on achieving particular targets to the detriment of the long-term stewardship of members' funds.

All employees are eligible to join the Society's Group Personal Pension Scheme. The Society does not operate supplementary pension or enhanced early retirement arrangements.

Non-Executive Directors of the Management Committee are remunerated by way of an annual fee and a meeting attendance allowance. In addition, reasonable expenses e.g. travel and subsistence incurred in the course of Society business are reimbursed. Non-Executive Directors are not entitled to join the Pension Scheme.

Further information on the remuneration of the Management Committee and the Chief Executive is set out in the Remuneration Report.

PRINCIPLE SIX: STAKEHOLDER RELATIONSHIPS AND ENGAGEMENT

"Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions."

General

The Management Committee is clear that stakeholder engagement is central to good governance and is vital to deliver the Society's purpose and to protect its brand, reputation and relationships with all our stakeholders, including members, employees, suppliers and the railway industry in which we operate.

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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 Non-Executive Directors on the Management Committee are based in the workplace from which the majority of 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 train operating company franchises. They actively seek members' comments, feedback and participation. Members are able 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 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. The Society firmly believes that all customers, including those in vulnerable circumstances, should receive fair treatment from financial services providers. During 2019, the framework for this was formalised through the adoption of the Society's Vulnerable Customers Policy, which was issued to all Society staff.

We are proud of the strength of the relationship we have built up with the membership, which we recognise as fundamental to the Society's future success.

The Society is active in the friendly society movement and is proud of its membership of the Association of Financial Mutuals (AFM). The Society derives enormous benefit from the AFM, particularly in the implementation of regulatory requirements and corporate governance best practice. The Society is supportive of the work of its Chief Executive as a Non-Executive Director of the AFM.

Employees

Our employees are vital to the ongoing success of the Society. We have a policy of being as flexible as we can with working arrangements, both to ensure we fulfil member expectations and to help maximise opportunities for staff. The Society recognises the importance of diversity in creating an inclusive culture amongst the workforce and the Management Committee is committed to promoting the inclusion of a range of perspectives, ideas and talents.

The General Manager and the Finance Manager are routinely invited to meetings of the Management Committee. The Chief Executive is responsible for ensuring effective communication between the Management Committee and staff. Team meetings take place on a regular basis to ensure that staff are aware of key strategic developments in the Society.

Suppliers

The policy of the Society is that its core policy administration, information systems and finance functions are managed in-house. Outsourcing is generally restricted to key areas where either professional expertise is not available from within the Society's own resources or where the third-party provision of a service or function is preferable, for example to help demonstrate independence.

The key areas where functions are currently outsourced are:

- Internal Audit
- Actuarial Functions
- Investment Fund Management

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- Investment Property Management

All outsourced providers are based in the United Kingdom. In determining the award of an outsourced contract, the Society undertakes due diligence to establish a provider's financial stability and track record in providing similar services. In this regard, background endorsements are sought from amongst the Society's friendly society peer group. When the Society enters into outsourced arrangements, contracts for services, except in exceptional circumstances, do not extend beyond one year. All outsourced services are reviewed periodically and, when considered appropriate, are re-tendered or re-negotiated.

Community

We are proud of the railway community in which we operate and maintain good relationships with the train operating companies and with the drivers' trade union, ASLEF. The Society is also proud of its association with the Railway Employees and Public Transport Association (REPTA) and has funded 1 year of free REPTA membership for all of its Depot Introducers. It is also proud of its association with the Transport Benevolent Fund (TBF) and funds TBF membership fees for all its staff.

Approved by the Management Committee on 9 April 2020 and signed on its behalf



J W Goolamier
Chair

Railway Enginemen's Assurance Society Limited

REMUNERATION REPORT

REMUNERATION REPORT

Management 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. Non-Executive Directors on the Management Committee are provided with a daily allowance for attending Committee meetings. In addition, they are paid an annual retainer fee. Travel and subsistence expenses are also paid where appropriate.

In accordance with the Society's strategy to control its expenses, Non-Executive Directors did not increase their fees or daily allowances during 2017 or 2018. An increase of 2.5% was applied to fees and daily allowances from 1 January 2019.

The daily allowance for 2019 was £308. The annual retainer fees for 2019 were as follows: Chair: £9,225; Non-Executive Professional Directors: £6,150; Non-Executive Member Directors: £3,075. Additional annual fees of £1,025 were paid to the Chair of the Audit and Risk Management sub-Committee and the Chair of the With-Profits Advisory Arrangement. An additional annual fee of £500 was paid to the Deputy Chair. An additional annual fee of £1,025 was paid, pro-rata, to the Senior Independent Director from 1 August 2019.

Senior 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 costs for 2019 were as follows:

| | Fees and allowances £ | Introducer Payments £ | Salary £ | Benefits £ | Pension cost £ | Total 2019 £ |
|-----------------------|--------------------------|--------------------------|-------------|---------------|-------------------|-----------------|
| J W Goolamier | 12,026 | - | - | - | - | 12,026 |
| J McKenna | 7,709 | - | - | - | - | 7,709 |
| R T Brushfield-Hodges | 5,464 | - | - | - | - | 5,464 |
| M A Casey | 10,305 | - | - | - | - | 10,305 |
| L P Davies | 5,587 | 2,389 | - | - | - | 7,976 |
| A Edwards | 4,809 | 919 | - | - | - | 5,728 |
| D I Storrie | 6,245 | 1,060 | - | - | - | 7,305 |
| R A J Townsley * | 7,230 | - | - | - | - | 7,230 |
| M A Bicknell | - | - | 127,064 | - | 20,633 | 147,697 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | 59,375 | 4,368 | 127,064 | - | 20,633 | 211,440 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

* Mr R A J Townsley was appointed to the Management Committee on 1 April 2019.

Railway Enginemens Assurance Society Limited

REMUNERATION REPORT

Fees, allowances, introducer payments, salary, benefits and pension costs for 2018 were as follows:

| | Fees and allowances £ | Introducer Payments £ | Salary £ | Benefits £ | Pension cost £ | Total 2018 £ |
|-----------------------|--------------------------|--------------------------|-------------|---------------|-------------------|-----------------|
| J W Goolamier | 12,171 | - | - | - | - | 12,171 |
| J McKenna | 6,662 | - | - | - | - | 6,662 |
| R T Brushfield-Hodges | 5,025 | - | - | - | - | 5,025 |
| M A Casey | 9,721 | - | - | - | - | 9,721 |
| L P Davies | 5,172 | 777 | - | - | - | 5,949 |
| A Edwards | 3,730 | 369 | - | - | - | 4,099 |
| D I Storrie | 5,753 | 940 | - | - | - | 6,693 |
| R G Frier * | 4,215 | - | - | - | - | 4,215 |
| M A Bicknell | - | - | 124,130 | - | 20,160 | 144,290 |
| | 52,449 | 2,086 | 124,130 | - | 20,160 | 198,825 |

*Mr R G Frier was a member of the Management Committee until 19 June 2018.

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 sales compliance consultancy for the Society. In 2019 the total paid in respect of these services amounted to £5,870 (2018: £4,585). It is considered that provision of these services does not impact either his independence or judgement as a Management Committee member.

A separate resolution to accept this Remuneration Report will be put to the Society's members at the 2020 Annual General Meeting.

Approved by the Management Committee on 9 April 2020 and signed on its behalf.

J W Goolamier
Chair

Railway Enginemen's Assurance Society Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
THE RAILWAY ENGINEMEN'S ASSURANCE SOCIETY LIMITED
YEAR ENDED 31 DECEMBER 2019

Opinion on the financial statements of the Railway Enginemen's Assurance Society

We have audited the financial statements of the Railway Enginemen's Assurance Society Limited for the year ended 31 December 2019, which comprise the Statement of Comprehensive Income, the Statement of Financial Position and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and Financial Reporting Standard FRS 102 and 103.

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2019 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Management Committee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Management Committee have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Railway Enginemens Assurance Society Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE RAILWAY ENGINEMENS ASSURANCE SOCIETY LIMITED - CONTINUED YEAR ENDED 31 DECEMBER 2019

Key audit matters

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

| Key audit matter | How our audit addressed the key audit matter | Observation |
|--|---|--|
| <p>Valuation of technical provisions</p> <p>As at 31 December 2019 the Society recognised long term business provisions (the 'Technical Provision') of £26.7m (2018: £26.7m) and were prepared in line with the Society's accounting policy. Due to the size and nature of the Technical Provision we consider these to be material to the financial statements.</p> <p>The Technical Provision is calculated using policy data held on the Society's administration system and assumptions set using internal and external data as inputs to the actuarial valuation model.</p> <p>Through the selection of appropriate assumptions, the Management Committee are required to make significant judgements in conjunction with the advice of the Chief Actuary. These judgements involve considering whether the assumptions appropriately reflect the Society's experience, circumstances and future expectations.</p> | <p>In assessing the valuation of the Technical Provision, we performed the following procedures:</p> <ul style="list-style-type: none"> • We engaged the services of a suitably qualified, independent and experienced actuary ('Reviewing Actuary') to review and report on the methodology and assumptions applied by the Management Committee in the calculation of the Technical Provision, and on the accuracy of the calculation itself. • We reviewed and assessed changes to assumptions used in the calculation and considered the advice of our Reviewing Actuary as to whether those changes were reasonable and the impact they had on the calculation. • We substantially tested the integrity of the Society's policy administration data to ensure the data being used by the Chief Actuary was accurate. The testing included sample checks on premium income streams, claims paid, data integrity checks on key fields and reconciliation of policy numbers. • One key component to the Technical Provision are the expense assumptions. We have assessed the Management Committee's assumptions in terms of future budgeted expenses and levels of projected new business, and compared previous budgets to actual results to assess the reliability of the Society's budgeting process. We have also reviewed post year end management information | <p>Overall, based on the assumptions and methodology used at 31 December 2019, we consider the valuation of the Technical Provision recognised within the financial statements to be reasonable.</p> |

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE RAILWAY ENGINEMEN'S ASSURANCE SOCIETY LIMITED - CONTINUED YEAR ENDED 31 DECEMBER 2019

Key audit matters - continued

| Key audit matter | How our audit addressed the key audit matter | Observation |
|---|--|--|
| <p>Management override of controls</p> <p>Auditing Standards require us to communicate the fraud risk from management override of controls as significant.</p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively</p> | <p>In assessing the risk that accounting records and the financial statements are materially misstated through management overriding controls we have performed the following procedures:</p> <ul style="list-style-type: none"> Reviewed bank transactions throughout the year and since the year end for material and round sum amounts and evidenced these back to appropriate documentation and authorisation Reviewed the completeness and reasonableness of accounting estimates (in conjunction with work performed on the Technical Provision noted earlier) Using audit data analytical software, we ran a group of tests on the general ledger data to identify transactions of a higher risk nature to review and substantiate to appropriate evidence Checked the consistency and appropriateness of accounting policies and disclosures in the financial statements | <p>Overall, we are satisfied that the accounting records and financial statements are free from material misstatement in this area.</p> |
| <p>Covid 19 and going concern</p> <p>Whilst the impact of Covid 19 at 31 December 2019 was limited to isolated cases in China and Asia, since then the virus has spread further throughout the world and significantly impacted the world and the UK economy.</p> <p>As a result, our audit strategy over going concern has responded to this new risk to ensure the basis of preparation for the financial statements remained appropriate.</p> | <p>In response to the additional risk presented by Covid 19 we have performed the following procedures:</p> <ul style="list-style-type: none"> Reviewed up to date Technical Provision calculations prepared at 25 March to reassess solvency cover and free assets Our Reviewing Actuary reviewed the assumptions used in the revised calculations and provided comments on sensitivities inherent in the model Reviewed up to date management information to assess if there was evidence of significant changes in behaviours and attitudes of members and rental tenants Specific discussions with management about contingency planning measures and impact of social distancing requirements on the operations of the Society Reviewed the reasonableness of additional disclosures made in the financial statements | <p>Overall, we are satisfied that the Management Committee's adoption of the going concern basis of preparation remains appropriate and additional disclosures are reasonable and appropriate.</p> |

Railway Enginemen's Assurance Society Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
THE RAILWAY ENGINEMEN'S ASSURANCE SOCIETY LIMITED - CONTINUED
YEAR ENDED 31 DECEMBER 2019

Our application of materiality

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

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

When establishing our overall audit strategy, we determined an overall level of uncorrected misstatement that we judged would be material for the financial statements as a whole. We determined planning materiality for the Society to be £130,000 which is approximately 2% of the prior year 'Own Funds'.

On the basis of our risk assessment, together with our assessment of the Society's overall control environment, our judgement is that the overall performance materiality level should be 70% of planning materiality, namely £91,000. We have agreed with the Management Committee that we shall report to them misstatements in excess of £4,550 that we identify through the course of the audit, together with any qualitative matters that warrant reporting.

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

Other Information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinion on other matters prescribed by the Friendly Societies Act 1992

In our opinion the Report of the Management Committee has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and the information given therein is consistent with the financial statements for the financial year.

Railway Enginemen's Assurance Society Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
THE RAILWAY ENGINEMEN'S ASSURANCE SOCIETY LIMITED - CONTINUED
YEAR ENDED 31 DECEMBER 2019

Matters on which we are required to report by exception

- Friendly Societies Act 1992:

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

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

Responsibilities of the Management Committee

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

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

Auditor's responsibilities for the audit of the financial statements

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

We gained an understanding of the legal and regulatory framework applicable to Society, and considered the risk of acts by the Society which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Society's financial statements, including but not limited to, the Friendly Societies Act 1992, Financial Services and Market Act 2000, the Prudential Regulation Authority's regulations, the Financial Regulation Authority's regulations, the Solvency II regulations and the UK tax legislation.

Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with and reports to the regulators, enquiries of management, review of reports by internal auditors and compliance consultants, review of board minutes and review of the Society's register of complaints and negative comments.

Railway Enginemen's Assurance Society Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
THE RAILWAY ENGINEMEN'S ASSURANCE SOCIETY LIMITED - CONTINUED
YEAR ENDED 31 DECEMBER 2019

Auditor's responsibilities for the audit of the financial statements - continued

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We also addressed the risk of management override of internal controls by testing journals and other transactions using data analytical auditing techniques and evaluated whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Other matters which we are required to address

We were appointed by the Management Committee on 27 September 2017 and this is our third period of the audit engagement.

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

Use of our report

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



Paul Winwood (Senior Statutory Auditor)

For and on behalf of BHP LLP
Statutory Auditors
2 Rutland Park
Sheffield S10 2PD

Railway Enginemen's Assurance Society Limited

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

| | <i>Notes</i> | 2019 | 2018 |
|--|--------------|-----------|-------------|
| | | £ | £ |
| Technical Account - Long Term Business | | | |
| Income | | | |
| Earned premiums | | 4,424,534 | 4,455,618 |
| Investment Income | | | |
| Unrealised gains/(losses) on investments | 3 | 1,167,322 | 945,384 |
| | | 1,950,140 | (1,172,743) |
| | | 3,117,462 | (227,359) |
| Total Income | | 7,541,996 | 4,228,259 |
| Expenditure | | | |
| Claims incurred | 4 | 4,186,945 | 4,087,039 |
| Change in technical provisions | 12 | 30,203 | (480,523) |
| | | 4,217,148 | 3,606,516 |
| Net Operating Expenses | | | |
| Acquisition costs | | 187,506 | 156,536 |
| Administrative expenses | 6 | 841,729 | 818,128 |
| | | 1,029,235 | 974,664 |
| Total Expenditure | | 5,246,383 | 4,581,180 |
| Excess/(Deficit) of income over expenditure before taxation | 5 | 2,295,613 | (352,921) |
| Taxation | 9 | (89,799) | 29,283 |
| Transfer to/(from) own funds | 12 | 2,205,814 | (323,638) |

All income and expenditure arises from continuing operations.

Railway Enginemen's Assurance Society Limited

STATEMENT OF FINANCIAL POSITION - ASSETS

31 December 2019

| | <i>Notes</i> | 2019 | 2018 |
|--|--------------|-------------------|-------------------|
| | | £ | £ |
| Investments | 10 | | |
| Land and buildings | | 2,920,000 | 2,892,000 |
| Other financial investments - long term fund: | | 31,253,258 | 29,609,689 |
| | | <hr/> | <hr/> |
| | | 34,173,258 | 32,501,689 |
| Debtors | | | |
| Debtors from direct insurance operations - Members | | 249,418 | 316,524 |
| Other debtors | | 61,441 | 66,344 |
| | | <hr/> | <hr/> |
| | | 310,859 | 382,868 |
| Other assets | | | |
| Tangible assets | 11 | 8,242 | 5,294 |
| Cash at bank and in hand | | 1,260,884 | 413,437 |
| | | <hr/> | <hr/> |
| | | 1,269,126 | 418,731 |
| Prepayments and accrued income | | | |
| Accrued interest | | 349,371 | 347,995 |
| Other prepayments and accrued income | | 30,457 | 26,495 |
| | | <hr/> | <hr/> |
| | | 379,828 | 374,490 |
| | | <hr/> | <hr/> |
| TOTAL ASSETS | | 36,133,071 | 33,677,778 |
| | | <hr/> <hr/> | <hr/> <hr/> |

Railway Enginemen's Assurance Society Limited

STATEMENT OF FINANCIAL POSITION - LIABILITIES

31 December 2019

| | <i>Notes</i> | 2019 | 2018 |
|--|--------------|-------------------|-------------------|
| Own Funds | 12 | 8,897,415 | 6,691,601 |
| Technical provisions | | | |
| Technical provisions | 12 | 26,762,896 | 26,732,693 |
| Claims outstanding | | 170,718 | 46,191 |
| | | <hr/> | <hr/> |
| | | 26,933,614 | 26,778,884 |
| Provision for other risks and charges | | | |
| Deferred taxation | 9 | 85,021 | - |
| Creditors | | | |
| Other creditors including taxation and social security | 13 | 15,743 | 15,982 |
| Accruals and deferred income | | 201,278 | 191,311 |
| | | <hr/> | <hr/> |
| TOTAL LIABILITIES | | 36,133,071 | 33,677,778 |
| | | <hr/> <hr/> | <hr/> <hr/> |

Approved and authorised for issue by the Management Committee on 9 April 2020



J W Goolamier - Chairman



M A Casey - Chair of Audit and Risk Management sub-Committee



M A Bicknell - Chief Executive & Secretary

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

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.

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.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

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 technical provisions. The value of claims includes bonuses paid or payable. Surrenders are accounted for at the payment date.

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.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

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.

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 |
|----------------------------------|---------|

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

The Society's technical provisions are 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. 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

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

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

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.

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.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

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 solvency 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 2019

| | | | |
|----------|---|------------------|------------------|
| 3 | INVESTMENT INCOME | 2019 | 2018 |
| | | £ | £ |
| | Income from investments: | | |
| | Listed | 782,282 | 808,952 |
| | Land and buildings | 203,899 | 204,527 |
| | Mortgage interest | 5,987 | 14,954 |
| | Other interest receivable | 54,151 | 55,340 |
| | | <u>1,046,319</u> | <u>1,083,773</u> |
| | Net (losses)/gains on realisation of investments | 121,003 | (138,389) |
| | | <u>1,167,322</u> | <u>945,384</u> |
| 4 | CLAIMS INCURRED | 2019 | 2018 |
| | | £ | £ |
| | Expenditure for the year comprises: | | |
| | Claims for benefit: | | |
| | Retired members (aged 65) | 54,416 | 96,559 |
| | (aged 60) | 185,544 | 155,580 |
| | Disabled members | 101,227 | 116,410 |
| | Deceased members | 108,068 | 26,937 |
| | Endowments | 2,667,910 | 2,609,604 |
| | Surrenders | 1,069,780 | 1,081,949 |
| | | <u>4,186,945</u> | <u>4,087,039</u> |
| 5 | EXCESS/(DEFICIT) OF INCOME OVER EXPENDITURE BEFORE TAXATION | 2019 | 2018 |
| | | £ | £ |
| | Excess of income over expenditure before taxation is stated after charging: | | |
| | Depreciation | 2,084 | 1,077 |
| | Property management charges | 17,310 | 16,921 |
| | Fund management charges | 101,725 | 96,678 |
| | Auditor's remuneration: | | |
| | Audit services – BHP | 45,840 | 42,120 |
| | Actuary's remuneration | 92,070 | 101,323 |
| | | <u>147,929</u> | <u>140,021</u> |

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

| 6 | ADMINISTRATIVE EXPENSES | 2019 | 2018 |
|----------|--|-----------------------|-----------------------|
| | | £ | £ |
| | Staff costs | 374,481 | 362,363 |
| | Premium collection services | 41,194 | 41,565 |
| | Committee fees and expenses | 67,669 | 59,789 |
| | General office expenses | 67,903 | 83,948 |
| | Professional fees | 290,482 | 270,463 |
| | | <u>841,729</u> | <u>818,128</u> |
| | | <u><u>841,729</u></u> | <u><u>818,128</u></u> |
| 7 | EMPLOYEES | 2019 | 2018 |
| | | No. | No. |
| | The average monthly number of persons employed by the Society during the year was: | | |
| | Administration | 6 | 6 |
| | Acquisition | 1 | 1 |
| | | <u>7</u> | <u>7</u> |
| | | <u><u>7</u></u> | <u><u>7</u></u> |
| | | 2019 | 2018 |
| | | £ | £ |
| | Staff costs for above persons: | | |
| | Wages and salaries | 358,984 | 348,513 |
| | Social security costs | 38,248 | 37,272 |
| | Pension costs | 58,470 | 55,826 |
| | Other costs | - | - |
| | | <u>455,702</u> | <u>441,611</u> |
| | | <u><u>455,702</u></u> | <u><u>441,611</u></u> |

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

8 CHIEF EXECUTIVE AND COMMITTEE MEMBERS

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

| | 2019 £ | 2018 £ |
|---|----------------|----------------|
| Emoluments paid to members during the year: | | |
| Fees and allowances | 59,375 | 52,449 |
| Salaries and benefits in kind | 127,064 | 124,130 |
| Pension costs | 20,633 | 20,160 |
| | <u>207,072</u> | <u>196,739</u> |

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

| | 2019 No | 2018 No |
|---|------------|------------|
| Not more than £5,000 | 1 | 2 |
| More than £5,000 but not more than £10,000 | 5 | 5 |
| More than £10,000 but not more than £15,000 | 2 | 1 |
| More than £120,000 but not more than £125,000 | - | 1 |
| More than £125,000 but not more than £130,000 | 1 | - |
| | <u>9</u> | <u>9</u> |

| | 2019 £ | 2018 £ |
|--------------------------|---------------|---------------|
| Chairman: | | |
| Emoluments J W Goolamier | 12,026 | 12,171 |
| | <u>12,026</u> | <u>12,171</u> |

| | 2019 £ | 2018 £ |
|--------------------------|----------------|----------------|
| The highest paid member: | | |
| Remuneration | 127,064 | 124,130 |
| Emoluments | <u>127,064</u> | <u>124,130</u> |

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

| 9 TAXATION | 2019 | 2018 | | |
|--|---------------|-----------------|------------|------------------|
| | £ | £ | | |
| Current tax: | | | | |
| UK Corporation tax on profits of the period | - | - | | |
| Irrecoverable tax on franked investment income | 4,778 | 5,374 | | |
| Adjustment in respect of previous periods | - | - | | |
| | <u>4,778</u> | <u>5,374</u> | | |
| Total current tax | 4,778 | 5,374 | | |
| Deferred tax: | | | | |
| Origination and reversal of timing differences | | | | |
| current year | 85,021 | (34,657) | | |
| prior year | - | - | | |
| | <u>85,021</u> | <u>(34,657)</u> | | |
| Total deferred tax | 85,021 | (34,657) | | |
| Tax on surplus on ordinary activities | <u>89,799</u> | <u>(29,283)</u> | | |
| | 2019 | 2018 | | |
| | £ | £ | | |
| DEFERRED TAX: | | | | |
| Movement in deferred tax for the period: | | | | |
| At 1 January | - | 34,657 | | |
| Charge to statement of comprehensive income | 85,021 | (34,657) | | |
| | <u>85,021</u> | <u>-</u> | | |
| At 31 December | 85,021 | - | | |
| | <u>85,021</u> | <u>-</u> | | |
| The deferred tax (asset) / liability comprises: | | | | |
| | Provided | | Unprovided | |
| | 2019 | 2018 | 2019 | 2018 |
| | £ | £ | £ | £ |
| Accelerated capital allowances and other short term timing differences | 1,201 | 770 | - | - |
| Unrealised gain/(loss) on investments | 50,976 | (28,116) | - | (2,660) |
| Revaluation of investments | 216,409 | 53,137 | - | - |
| Capital losses | (33,530) | (25,791) | - | - |
| Excess management expenses | (150,035) | - | - | (167,876) |
| | <u>85,021</u> | <u>-</u> | <u>-</u> | <u>(170,536)</u> |

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

| 10 INVESTMENTS | 2019 | 2018 |
|-----------------------------|------------------|------------------|
| | £ | £ |
| Freehold land and buildings | | |
| Investment property | 2,600,000 | 2,572,000 |
| Office property | 320,000 | 320,000 |
| | <u>2,920,000</u> | <u>2,892,000</u> |

The Society's investment properties were professionally valued at 31 December 2019 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 2019 on an open market basis.

Other financial investments:

| | Current value | | Historical cost | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| | £ | £ | £ | £ |
| Listed: | | | | |
| British Government and Local Authority stocks | 8,866,504 | 8,799,601 | 8,698,612 | 8,729,127 |
| UK and Overseas Equities | 6,163,347 | 5,823,708 | 4,487,244 | 5,337,898 |
| Unit and Investment Trusts | 4,705,355 | 3,282,443 | 3,799,827 | 2,818,681 |
| UK and Overseas Fixed Interest Securities | 10,573,190 | 10,481,959 | 10,425,806 | 10,600,863 |
| | <u>30,308,396</u> | <u>28,387,711</u> | <u>27,411,489</u> | <u>27,486,569</u> |
| Unlisted: | | | | |
| Loans secured by mortgages | 36,584 | 277,242 | 36,584 | 277,242 |
| Other loans | 908,278 | 944,736 | 908,278 | 944,736 |
| | <u>31,253,258</u> | <u>29,609,689</u> | <u>28,356,351</u> | <u>28,708,547</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 2019

11 TANGIBLE FIXED ASSETS

| | Fixtures, fittings and equipment £ |
|-------------------------|---|
| Cost | |
| 1 January 2019 | 102,022 |
| Additions | 5,032 |
| Disposals | (3,644) |
| | <hr/> |
| 31 December 2019 | 103,410 |
| | <hr/> |
| Depreciation | |
| 1 January 2019 | 96,728 |
| Charge for the year | 2,084 |
| Eliminated on disposals | (3,644) |
| | <hr/> |
| 31 December 2019 | 95,168 |
| | <hr/> |
| Net book value | |
| 31 December 2019 | 8,242 |
| | <hr/> <hr/> |
| 31 December 2018 | 5,294 |
| | <hr/> <hr/> |

12 RESERVES AND TECHNICAL PROVISIONS

| | Own Funds £ | Technical Provisions £ |
|-------------------------------|----------------|------------------------------|
| 1 January 2019 | 6,691,601 | 26,732,693 |
| Transfer to technical account | 2,205,814 | 30,203 |
| | <hr/> | <hr/> |
| 31 December 2019 | 8,897,415 | 26,762,896 |
| | <hr/> <hr/> | <hr/> <hr/> |

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.

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

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

| 13 CREDITORS | 2019 | 2018 |
|---|-------------------|-------------------|
| | £ | £ |
| Payable within 12 months otherwise than by instalments: | | |
| Other creditors including taxation and social security | 15,743 | 15,982 |
| | <u> </u> | <u> </u> |

14 PENSION CONTRIBUTIONS

The Society contributes to staff personal pension plans. Contributions are charged to the statement of comprehensive income account on an accruals basis.

The pension charge for the year amounted to £49,114 (2018: £47,923).

15 APPOINTED CHIEF ACTUARY AND WITH-PROFITS ACTUARY AND REMUNERATION

The appointed Chief Actuary and With-Profits Actuary of the Society is Mrs A E Carr, an Actuary with Steve Dixon Associates LLP. The Society has requested her to provide certain particulars requested in Section 77 of the Friendly Societies Act 1992. She has confirmed 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 2019 totalled £92,070 (2018: £101,323).

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.

| | 2019 | | 2018 | |
|-------------------------------------|----------------------|-------------|----------------------|-------------|
| | Number of persons | Amount £ | Number of persons | Amount £ |
| Life assurance policies: | | | | |
| Premiums paid during the year | 11 | 28,035 | 11 | 28,033 |
| Total sum assured as at 31 December | 11 | 343,323 | 10 | 336,971 |

Commission of £4,368 (2018: £2,086) has been paid to some Committee members in relation to their duties as Depot Introducers. Further details are provided in the Remuneration Report on page 24.

During the year R T Brushfield-Hodges was paid £5,870 (2018: £4,585) 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.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

17 POST BALANCE SHEET EVENT: COVID-19

The situation at 31 December 2019 was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. There was no explicit evidence of human-to-human transmission at that date. These are the conditions that existed at 31 December 2019. The subsequent spread of the virus and its identification as a new coronavirus does not provide additional evidence about the situation that existed at 31 December 2019, and it is therefore a non-adjusting event.

The Society remains in a good solvency position. At 31 December 2019, it had Own Funds of 237% of the Solvency Capital Requirement (SCR). A recent approximation as at 31 March 2020 showed the Society had Own Funds of approximately 216% of the SCR. The Society's assets at 31 March 2020 were approximately 6% below the 31 December 2019 values.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

18 FRS 103 LONG TERM INSURANCE CONTRACTS

The technical provisions have been calculated by the actuarial function, overseen 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 provision 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.

Assumptions

The key assumptions are as follows:

| Valuation Basis Summary | 31 December 2019 | 31 December 2018 | 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 | 16.3% of gross premiums | 20.1% 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 cashflows used to calculate the technical provisions are sufficient on average over the average duration of six years to cover the projected budget expenses. The investment management expenses are assumed to be a percentage of policy reserve explicitly allowed for in the model, whereas previously these were assumed to be implicitly covered within the investment returns. Acquisition expenses are assumed to be absorbed by new business so no assumptions are included for acquisition expenses. |
| Investment management fees | 0.334% of policy reserves | - | |
| Allowance for future bonus | | | The actuarial valuation has assumed that future reversionary bonuses 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 final bonuses where appropriate. |
| Post 31 December 2017 inceptions | 0.75% | 0.75% | |
| Post-1984 to 31 December 2017 inceptions | 0.50% | 0.50% | |
| Pre-1984 inceptions | 1.0% | 1.0% | |
| | and reducing thereafter | and reducing thereafter | |

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

18 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

| Valuation Basis Summary | 31 December 2019 | 31 December 2018 | Process for setting assumptions |
|--|---|---|---|
| <p>Mortality</p> <p>Aged 17 and over</p> <p>Under age 17</p> | <p>40% AMC00/AFC00 ultimate</p> <p>25% ELT15</p> | <p>55% AMC00/AFC00 ultimate</p> <p>30% ELT15</p> | <p>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.</p> <p>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.</p> |
| <p>Morbidity</p> | <p>40% of the rates derived from the Society's past disability experience</p> | <p>40% of the rates derived from the Society's past disability experience</p> | <p>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.</p> |
| <p>Tax</p> <p>Taxable policies</p> <p>Tax exempt Policies</p> | <p>0%</p> <p>0%</p> | <p>0%</p> <p>0%</p> | <p>Based on the Society's experience.</p> |

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

18 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

Lapses

The lapse assumptions are set by carrying out a generalised linear model analysis, which identifies whether a factor has a statistically significant impact on the results, using data from the last five years of experience. Once the significant factors have been identified, the lapse rates are set based on the experience.

2019 Lapse Rate Table

| Duration In Force | Age | | |
|-------------------|-----------|--------------|--------|
| | 0-14, 40+ | 15-19, 30-39 | 20-29 |
| Less than 1 | 2.25% | 3.00% | 3.50% |
| 1-2 | 10.25% | 13.50% | 15.75% |
| 3 | 7.00% | 9.00% | 10.50% |
| 4-8 | 5.50% | 7.25% | 8.50% |
| 9-14 | 3.00% | 4.00% | 4.50% |
| 15-19 | 2.25% | 2.75% | 3.25% |
| 20+ | 3.25% | 4.00% | 4.75% |

2018 Lapse Rate Table

| Duration In Force | Age | | |
|-------------------|-----------|--------|--------|
| | 0-19, 41+ | 20-29 | 30-39 |
| Less than 1 | 1.75% | 3.25% | 2.25% |
| 1-2 | 10.25% | 19.00% | 13.50% |
| 3 | 7.00% | 13.00% | 9.25% |
| 4 | 6.25% | 11.50% | 8.25% |
| 5-8 | 5.50% | 10.00% | 7.00% |
| 9-14 | 3.00% | 5.50% | 4.00% |
| 15-19 | 2.00% | 3.75% | 2.75% |
| 20+ | 2.75% | 5.00% | 3.50% |

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

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

18 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

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. 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). The Society has taken advantage of the ability to assume a lower stress for purchases of directly held equities made prior to 1 January 2016.

Property

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

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.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

18 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

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 Delegated Act 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 Societies policies. For each risk, the stress is considered only for those policies where this increases the technical provisions.

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 has no effect on assets, the stress is therefore assumed to be nil.

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.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

18 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

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 the next twelve months, for each policy where the payment of benefits is dependent on the policyholders' survival or death.

Correlation

The Delegated Act takes into account the diversification of insurance risks within the business by using a correlation matrix. This is because it is unlikely that all these risks (major and individual) will occur simultaneously.

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:

| | 2019 | 2018 |
|--|-----------------|-----------------|
| | £'000 | £'000 |
| Market value of assets | 36,133 | 33,678 |
| Other liabilities | (473) | (253) |
| Total available capital resources | <u>35,660</u> | <u>33,425</u> |
| Technical provisions: | | |
| Best Estimate | (25,739) | (25,242) |
| Risk Margin | (1,024) | (1,491) |
| | <u>(26,763)</u> | <u>(26,733)</u> |
| Own funds | 8,897 | 6,692 |
| Capital requirement (SCR) | (3,753) | (3,333) |
| Assets in excess of capital requirements | <u>5,144</u> | <u>3,359</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 (SCR). 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 2019 was £3,186,921 (2018: £3,288,301). This increase relates solely to the movement in the euro:sterling exchange rate.

The calculated SCR for the Society at 31 December 2019 was £3,752,993 (2018: £3,333,446), meaning that again in 2019 the SCR is higher than the MCR and is shown as the capital requirement in the table above. The increase in the SCR of £419,547 is attributable to the following factors:

- An increase in the symmetric adjustment that must be applied to equity holdings following their increased value as at 31 December 2019; and
- An increase in the transitional element that applies to directly held equities purchased before January 2016, which increased year on year.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

18 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

Movement in Technical Provisions

The Society's total technical provisions moved from £26,732,693 at 31 December 2018 to £26,762,896 at 31 December 2019.

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

| Movement in technical provisions: | 2019 |
|---|---------------|
| | £'000 |
| Technical provisions at 1 January 2019 | 26,733 |
| Change in valuation model | (491) |
| Change in data between 2018 and 2019 | (957) |
| Change in risk-free rates | 724 |
| Change in mortality & morbidity assumptions | (21) |
| Change in lapse assumption | 47 |
| Change in expense assumption | (98) |
| Allowance for new business | 504 |
| Change in surrender value factors | (141) |
| Unwinding of discount rate | 252 |
| Change in volatility assumption | (5) |
| Change in bonus recommendations | 216 |
| Balance at 31 December 2019 | <u>26,763</u> |