

Railway Enginemen's Assurance
Society Limited

FINANCIAL STATEMENTS

for the year ended

31 December 2015

Railway Enginemen's Assurance Society Limited

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Railway Enginemen's Assurance Society Limited

OFFICERS, ADVISERS AND REGISTERED OFFICE

MANAGEMENT COMMITTEE

J W Goolamier Chairman
A Edwards Deputy Chairman
R G Frier
J McKenna
A D Rich
J S Turner (retired 22 June 2015)
L P Davies
R T Brushfield-Hodges
M A Bicknell (appointed 23 January 2016)

CHIEF EXECUTIVE AND SECRETARY

R Leddington FCA

REGISTERED OFFICE

727 Washwood Heath Road
Ward End
Birmingham
B8 2LE

AUDITORS

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

ACTUARIAL FUNCTION HOLDER AND WITH-PROFITS ACTUARY

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

SOLICITORS

Taylor Walton Solicitors
28-44 Alma Street
Luton
Bedfordshire
LU1 2PL

SAS Daniels
35 White Friars
Chester
Cheshire
CH1 1NZ

BANKERS

NatWest Bank plc
868 Washwood Heath Road
Birmingham
B8 2WA

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

INVESTMENT MANAGERS

Vestra Wealth LLP
14 Cornhill
London
EC3V 3NR

INTERNAL AUDITORS

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

THE SOCIETY IS:

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

Railway Enginemen's Assurance Society Limited

MANAGEMENT COMMITTEE'S ANNUAL REPORT

MANAGEMENT COMMITTEE'S ANNUAL REPORT

The Committee has pleasure in presenting its report and the financial statements of the Society for the year ended 31 December 2015. The accounts have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994.

BUSINESS OBJECTIVES AND ACTIVITIES

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

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

FIXED ASSETS

The changes in the Society's fixed assets are shown in Note 12 of the financial statements.

MARGIN OF SOLVENCY

The Society had the required margin of solvency at 31 December 2015 as prescribed in the Prudential Reporting Rules set out in Chapter 4 of the Interim Prudential Sourcebook for Friendly Societies.

MANAGEMENT COMMITTEE

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

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

COMPLAINTS PROCEDURE

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

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

Railway Enginemen's Assurance Society Limited

MANAGEMENT COMMITTEE'S ANNUAL REPORT

THANKS AND APPRECIATION

We are indebted to our members for their continuing loyalty to the Society and to our hardworking introducers and representatives for promoting the Society's values in the workplace. The strength of our commitment to provide this outstanding level of service is supported by the positive feedback received from our members in response to questionnaires sent out on a regular basis. We are also heartened by the level of unsolicited comments of praise given by our members. This support is used as a measure of our success in "getting it right" but is never taken for granted. The Society would not enjoy this level of achievement without the continuing commitment, effort and dedication of our staff. They take enormous pride in serving the membership and we have great pleasure in recording our thanks and appreciation to them.

AUDITORS

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

Approved by the Management Committee on 29 March 2016
and signed on its behalf

J W Goolamier
Chairman

Railway Enginemen's Assurance Society Limited

STRATEGIC REPORT

STRATEGIC REPORT

Business performance

2015 saw the Society celebrating 150 years of serving its membership. This is an achievement of which everyone associated with the Society, throughout its long history, should be extremely proud.

The optimism in the economy gained momentum in the early months but was met by obstacles as the year progressed. Overall growth did not quite meet expectations and although there was less inflationary pressure on households the continuing fall in oil prices dampened global outlook. The General Election in May did not have the steadying effect anticipated and the prospect of an in or out EU referendum has brought additional uncertainties into planning, both at a personal and corporate level.

The financial service sector saw growth in lending but, again, this has been tempered by the prospect of an increase in interest rates. Whilst Bank Base Rate remains historically low the possibility of even modest increases has concentrated lenders' minds on affordability issues, particularly as house prices have been rising steadily throughout the year. The question of low interest rates is welcome news for borrowers but has continued to be a disappointment to savers.

Against this backdrop of economic and political uncertainty the Society has performed exceptionally well in continuing to generate new business and maintaining control over its cost base. We have maintained the focus on our core strengths of exceptional member service and keeping things as simple and straightforward as possible. We recognise also that we are extremely fortunate to have a membership with a strong ethos of self-provision when it comes to their and their families' futures. This financial discipline is one of which they are rightly proud and encourage amongst their colleagues. These workplace discussions act as a catalyst for bringing new members into the Society.

Membership

We have continued to offer our products on a non-advised basis only, through our network of Area Representatives and Depot Introducers. During the year we took on a number of new Depot Introducers some of whom replaced outgoing colleagues. Although we invariably lose experience with these changes there is often an enthusiasm to compensate. We continue to expand this workplace presence and are always looking to increase our breadth of coverage. Similarly we continue to add to our Area Representative network.

In the year a record 2,927 new policies were admitted, a remarkable 21.8% increase from the 2,403 taken on in 2014. These policies accounted for combined new sums assured of £7.6m, up 24.6% from the previous year's £6.1m. This level of new business is a major achievement in these uncertain conditions.

Policies Summary	2015	2014
Number of policies at 31 December	18,711	18,121
Number of members	4,821	4,769
Number of new policies	2,927	2,403
New sums assured	£7.6m	£6.1m

Premiums earned for the year increased by 3.3% to £4,360,562 against the £4,222,434 achieved in 2014.

Railway Enginemen's Assurance Society Limited

STRATEGIC REPORT

Claims

Claims totalling £3,966,415 were paid out during the year against the £3,716,119 paid in 2014. The vast majority of claims represent maturity payments for policies taken out 10 or more years ago. A full analysis is shown in Note 5 of the financial statements.

Investments

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

The Society continued with a cautious investment strategy, maintaining a strong solvency position throughout the year and a steady investment income stream. Investment disposals resulted in gains of £237,300 against the £97,483 generated in 2014. At the end of the year there were unrealised losses of £559,748 in the value of investments held, in contrast to the unrealised gains of £1,244,501 at the end of 2014. The market value of investment holdings at the close of 2015 was £29,110,581 a decrease from the £29,723,836 at the end of 2014. Part of this reduction in quoted investments resulted from the Society's decision to reallocate some of its investment funds in a broadening of strategy. During the latter part of the year we acquired two commercial investment properties, one in Gloucester and the other in Wellington, Shropshire. Each is tenanted by household name brands, on long-term tenancies and at attractive rental yields. These acquisitions took the Society's property holdings to £1,197,000. Additionally, there were bank balances of £372,830 at the end of 2015 against £447,708 at the end of the previous year. During 2015 investment income of £1,129,420 was generated, a slight decrease from the £1,191,188 arising in the previous year.

We review our professional advisers on a regular basis and make changes when it is considered appropriate. In late 2014 the Society engaged Vestra Wealth LLP to manage its investment portfolio. This new relationship has settled well and, additionally, the Vestra team has worked closely with us and our actuaries to address the regulatory demands being brought about with Solvency II regulations. Vestra's involvement with a number of friendly societies has helped in their understanding of the Society's needs and the regulatory demands. The firm's proactive fund management approach will support identifying suitable opportunities as they arise whilst working within the investment parameters of the Society's risk profile.

With equal importance the Society approached its commercial property investment by engaging a suitable firm of experts who would fully understand our requirements and have an appreciation of the friendly society sector. Walker Singleton, a firm of Chartered Surveyors based in Halifax, has worked closely with us to identify and secure suitable properties. They have been retained to manage these newly acquired properties and will maintain a watch for further opportunities that may become available.

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

Net Operating Expenses

Keeping the costs of running the Society to a minimum while delivering a first-class service to our members remains a key aim. Ensuring value for money across all aspects of the operation is a prime focus for staff although it is accepted that not all expense categories can be contained. The costs of regulation and legislation continue to have a major impact on smaller organisations and the work involved with Solvency II preparations has required significant collaboration with the Society's actuarial advisers. With the cutover date of 1 January 2016 it is unlikely that we shall see any easing of workload or expense as the new system is embedded over the coming twelve months. The increased levels of new business generated by the Society have resulted in an increase in commission and associated costs. The Management Committee has also found it necessary to increase its meeting schedule in order to devote

Railway Enginemen's Assurance Society Limited

STRATEGIC REPORT

Net Operating Expenses (continued)

sufficient time to the growing agenda of regulatory and governance issues. We have managed to bring overall expenses in below 21% of earned premiums, which in itself is an achievement in the face of meeting increased regulatory requirements and generating record levels of new business.

Year	Earned Premiums	Increase over previous year	Net Operating Costs	Increase over previous year	Net operating costs/Earned premiums
	£'000	%	£'000	%	%
2006	3,524	1.85	693	2.51	19.67
2007	3,623	2.83	697	0.60	19.23
2008	3,680	1.56	714	2.44	19.40
2009	3,688	0.22	766	7.28	20.77
2010	3,709	0.57	742	(3.13)	20.01
2011	3,919	5.66	798	7.55	20.36
2012	4,039	3.06	799	0.13	19.78
2013	4,124	2.10	814	1.88	19.74
2014	4,222	2.38	796	(2.21)	18.85
2015	4,361	3.29	911	14.45	20.89

Risks

The Society seeks to understand and manage the risks arising from its operations. Effective management of risk is key to achieving the strategic objectives. The principal risks facing the Society and the procedures developed to manage them are as follows:

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

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

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

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

Operational risk – loss arising from inadequate or failed internal processes, people, systems or external events. It would also encompass legal, information systems and regulatory risks. The Society's

Railway Enginemen's Assurance Society Limited

STRATEGIC REPORT

Risks (continued)

management has 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.

The key risks faced by the Society include:

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 Actuaries and on a daily basis provide data to the Society's management. The Management Committee reviews the fund performance on a monthly basis. The Society has taken additional measures to bring diversity to the statement of financial position 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.

Regulatory demands – the Society continues to be faced with increasing regulatory requirements and in particular those emanating from the Solvency II regime. The increased minimum capital requirement stipulated in this European directive will bring added challenges for smaller insurers and a more intrusive regulatory oversight. Solvency II preparations demand a resource intensive approach and the Society has had to fast-track a number of issues that other societies have been working towards for a number of years. As with all of these issues the Society has a network of professional advisors with which it works and a small management team with the skills and application to achieve the goals set.

Key personnel – The Society's continuing success owes much to the dedication and efforts of its staff and in particular its senior management. The Management Committee is tasked with ensuring that the Society can recruit and retain the range of skills and expertise necessary to develop the business as well as in meeting regulatory requirements. This has been a particular focus in 2015 as the Society has been active in identifying and securing a replacement for the Chief Executive who is scheduled to retire in 2016. It is also a fundamental requirement for the Management Committee to manage its own composition, skills and succession and it has been successful in attracting further professional expertise to strengthen the non-executive challenge essential to pursuing successful strategy. These actions will also support the Society's efforts in providing a robust platform from which to meet the regulatory changes being introduced in 2016 with the advent of the Senior Insurance Managers Regime.

In addition to addressing risk management issues arising from the day to day challenges the Management Committee also considers issues which, if they occurred, could have a catastrophic impact on the business. This exercise of reverse stress testing looks at extreme changes to business levels, external factors, market changes and economic events, how these would be identified and the actions that could be taken to mitigate their impact. It is also an exercise to ensure there are documented procedures in place to identify trigger points and the actions to be taken. The process is a thought provoking exercise that challenges executive and non-executives alike to consider issues of an extreme nature.

Future developments

2015 was the celebration of 150 years of working for the membership. This wonderful milestone is testament to a shared belief and one which remains solid to this day. It is accepted that change is vital for survival and growth but adapting to new markets and development of new products does not require a change of ethos or belief. The Society has never aspired to be the all singing, all dancing financial services provider. Its main purpose of providing affordable, understandable products that will meet the needs of the membership remains fundamental.

Railway Enginemen's Assurance Society Limited

STRATEGIC REPORT

Future developments (continued)

The continuing economic and political uncertainty across Europe does little to provide a stable platform on which individuals and businesses can plan for the future. The in/out referendum on Britain's membership of the European Union brings yet another unknown into the equation.

We have managed to build up the business year-on-year and remain confident in our ability to maintain this growth pattern within the constraints of the capital available under the new Solvency II regime. We shall continue to expand our Depot Introducer and Area Representative network and will look to new channels for delivering our products to the workplace. The strategy will continue to be to grow the business organically at a controlled, manageable rate.

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

We maintain the strong belief that we are in a position to remain as an independent friendly society with a sound financial base and a commitment to deliver a first class service to our members. The one thing of which we can be certain is that 2016 will be another year of challenge.

J W Goolamier
Chairman

29 March 2016

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

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

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

The Management Committee

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

The Management Committee comprises seven members, all of whom are non-executive. The Code recommends that Management Committees should comprise a mix of executive and non-executive members. However, taking into account the scale and nature of the business, it is considered that the existing structure has worked well with the roles and responsibilities of Committee members and management remaining distinct. This is currently under review and it is planned that the incoming Chief Executive will take on an executive role as a member of the Management Committee. By invitation the Chief Executive and the senior managers attend all meetings of the Committee.

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

Joe Goolamier	Age 70. Joe was appointed to the Management Committee in 2002. He is retired from his role as Duty Resources Manager with WAGN operating at Kings Cross. Joe holds the full FPC qualification and previously chaired the Audit & Risk Management sub-Committee. He stood down from this role when he was elected as Chairman of the Society in June 2013.
Alan Edwards	Age 51. Alan joined the Committee in 2004 and is currently the Society's Deputy Chairman and the Senior Independent Director. He also serves on the Audit & Risk Management sub-Committee. A driver with Northern Rail based at Sheffield, Alan holds FPC 1 level and is a former school governor.
Lee Davies	Age 48. Lee was elected onto the Committee at the Annual General Meeting in June 2013. Lee is qualified to FPC 1 level and is a driver with Cross Country operating out of Newcastle. He has also served as a school governor.
Roger Frier	Age 68. Roger was appointed to the Management Committee in 2010. He is a Chartered Banker and has spent his career in mutual financial services organisations. He retired from his role as Chief Executive of a northern friendly society whom he joined after having previously been Chief Executive of Railway Enginemen's Assurance Society. He is also a former consultant with Cazenove Capital Management. Currently he is Deputy Chairman and Trustee of Leeds Teaching Hospitals Charitable Foundation and Chairman of the With Profits Committee of Healthy Investment. Roger serves on the Society's Audit & Risk Management sub-Committee.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

The Management Committee (continued)

Joe McKenna	Age 42. Joe joined the Management Committee in 2006 and is Chairman of the Audit & Risk Management sub-Committee. A driver with Cross Country Trains operating out of Manchester, Joe is a law graduate and a qualified solicitor. He is a Director of Richmond House Management Company (Aigburth) Limited.
Alan Rich	Age 66. Alan was appointed to the Management Committee in 1998. As a driver he spent most of his working life with freight operators. Alan is qualified to FPC 2 level. Having served on the Management Committee for eighteen years Alan believes that the time is appropriate to step down from this role and he will not be putting himself forward for re-election at the forthcoming Annual General Meeting.
John Turner	Age 68. John is a former driver with Northern Trains based at Leeds and has served on the Management Committee since 1987. He is qualified to FPC 1 level. Having served the membership as a Management Committee member for nearly thirty years John decided to retire from the role and did not seek re-election at the Annual General Meeting held in June. John has been a stalwart of the Society as Depot Introducer and member of the Management Committee and for a period served as Deputy Chairman. His commitment never faltered throughout this extended period and he is wished well in his retirement.
Terry Brushfield-Hodges	Age 76. Terry rejoined the Committee in 2014, being elected by the members at the Annual General Meeting, having served previously between 2006 and 2010. He is a retired financial adviser and served for many years as a Superintendent with Provident Mutual where he was closely involved with the British Rail Pension Schemes and the AVC (BRASS) Scheme. Since retiring he has undertaken retail compliance work with the Society and has also been involved in providing debt counselling.

Prior to the end of the year regulatory approval was granted for Marc Bicknell to join the Management Committee. Marc's co-option became effective on 23 January 2016 when he was admitted to membership of the Society. Marc, a graduate Chartered Accountant, is Chief Internal Auditor with Rotherham Council. He qualified with Pricewaterhouse Coopers and has served as a non-executive director of Druids Friendly Society and as a non-executive director of the Co-operative Group. He is currently Vice Chairman of the Co-operative Group Members Council. Marc will bring significant finance and audit skills to the Management Committee and his experience on audit committees will ably support the Society's non-executive challenge.

The Management Committee is also looking to add actuarial expertise to the non-executive skills and is well ahead in its efforts to secure a suitable candidate.

Senior Management:

Chief Executive & Secretary:

Robert Leddington Age 64. Appointed 1999. Chartered Accountant and qualified financial adviser.

General Manager:

Victoria Herbert Age 44. Appointed 1999. Qualified financial adviser.

Finance Manager:

Lynsey Inglis Age 29. Finance graduate. Chartered Accountant.

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

The Management Committee (continued)

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

Senior Independent Director

Alan Edwards is the Senior Independent Director, having been appointed to the position in June 2013. One aspect of this role, in line with the requirements of the Code, is to provide members with a point of contact other than the Chairman or Chief Executive. The nature of the Society is such that many members have access to Committee members through the workplace and much feedback is received through this channel. As stated earlier in the report, members having concerns about the Society's business are encouraged to write to any member of the Management Committee. Items should be addressed to the individual member of the Committee concerned, marked "Strictly private and confidential" and sent to the Society's address. The correspondence will be passed unopened to the Committee member.

Appointment and Reappointment of Members of the Management Committee

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

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

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

Roles of the Chairman and the Chief Executive

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

Chief Executive and Secretary

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

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Independence of Members of the Management Committee

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

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

The Code states that the Chairman on appointment should meet specific independence criteria. In 2013 Joe Goolamier was elected as Chairman, having been appointed to the Committee in 2002. Although his length of service exceeds nine years he is considered independent in both his judgment and integrity.

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

Management Committee effectiveness

Each year all members of the Committee must meet the tests of competency in the role laid down by the regulators. All Committee members are required to be registered with the Prudential Regulation Authority and the Financial Conduct Authority as Approved Persons to enable them to undertake the Controlled Function of Committee member.

The Management Committee undertakes an annual evaluation of its performance as a Committee, the Management Committee members assess the effectiveness of the Chairman, and individual members of the Committee undertake a self-assessment of their performance and contribution. The evaluation process is reviewed regularly and is modified and updated to meet changing requirements. In 2016 the Society is introducing third-party facilitated evaluations.

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

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

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

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Management Committee training

Members of the Management Committee participate in regular bespoke training programmes. These programmes are designed to address, amongst other issues, regulatory developments, product awareness, money laundering, data protection, corporate governance and Society specific matters. This training is developed by an independent Training & Compliance consultancy, Haven Risk Management, and is conducted in-house. In addition, members of the Management Committee are encouraged to participate in external seminars organised through the Association of Financial Mutuals. Presentations made by the Society's Actuary and by the Investment Managers are designed to further enhance Committee skills.

Management Committee meetings

The Management Committee meets at a frequency suitable to discharge its duties effectively. In 2015 the Committee met to conduct Society business on seven occasions, including a 2-day event in June. A further day each year is dedicated to training needs and focuses on topical issues and corporate governance. The meeting schedules retain the flexibility to accommodate any changes to the volume, complexity or frequency of matters needing to be considered.

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

Audit & Risk Management sub-Committee

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

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

The Audit & Risk Management sub-Committee met four times during the year and those meetings were also attended by the senior management. On one occasion the external auditors were present and on two occasions representatives from the internal audit firm attended. Additionally, members of the sub-Committee have attended clearance meetings held with the external auditors. When considered appropriate members of the sub-Committee meet also with the external auditors at their offices, independently of the senior management. The sub-Committee has unfettered access to both the internal and external auditors and, equally, the audit firms have open access to the sub-Committee and to the Management Committee.

In addition to monitoring the external audit from the outset of the planning stage the sub-Committee also considers the significant findings and recommendations arising from the audit of the Society's annual report and accounts. Any issues raised are discussed at both the clearance meeting and the subsequent meeting of the sub-Committee. The independence of the external audit function is monitored by the sub-Committee. The taxation department of the external audit firm undertakes an annual review of the

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Audit & Risk Management sub-Committee (continued)

corporation tax computations produced by the Society but this non-audit work is not considered by the sub-Committee to impact on the objectivity of the external auditors.

The primary area of judgement considered by the sub-Committee in 2015 was the Society's preparations for Solvency II. In addition to the actuarial aspects of the process the focus has been on the risk management strategy, risk appetite, risk register and the Society's Own Risk and Solvency Assessment (ORSA).

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

The Society's internal auditors and external auditors alike are able, at their discretion or requirement, to attend meetings of the Audit & Risk Management sub-Committee.

It is considered that the members of the sub-Committee possess the necessary mix of skills and knowledge of the Society that will enable them to exercise appropriate judgements and bring challenge and debate to issues as appropriate. As reported earlier, these skills are being enhanced by the addition of accounting, audit and actuarial appointments.

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

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

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

Attendance at meetings

Individual attendances at meetings during the year were as follows:

	Management Committee	Audit & Risk Management
Joe Goolamier	9/10	-
Alan Edwards	7/10	4/5
Joe McKenna	10/10	5/5
Alan Rich	10/10	-
John Turner	4/4	-
Roger Frier	9/10	4/5
Lee Davies	8/10	-
Terry Brushfield-Hodges	10/10	-
Robert Leddington*	10/10	5/5

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

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Relations with Members

The Society is fully committed to maintaining a strong relationship with its entire membership and encourages feedback and comment on the way it conducts its business. Many of the Management Committee are based in the workplace from which the membership is drawn and have regular contact with many of them. They are directly aware of many of the issues affecting the membership, particularly with regard to employment, and actively seek members' comments, feedback and participation. Members are encouraged to attend the Annual General Meeting and notice is provided at least 20 working days in advance of the meeting. Members of the Management Committee and the Society's senior managers are available to answer relevant questions at the meeting. It is the Society's policy that each substantive issue is the subject of a separate resolution at the Annual General Meeting.

The Society is keenly focused on the concept of Treating Customers Fairly and remains committed to dealing with its members fairly and appropriately. We are proud of the strength of the relationship we have built up with the membership, which we recognise as fundamental to Society's future success.

Internal Control

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

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

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

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

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

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

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Statement of Responsibilities of the Management Committee

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

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

The Committee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and to enable it to ensure that the financial statements comply with the requirements of the Friendly Societies Act 1992 and the regulations made under it. It is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Committee confirms, to the best of its knowledge the annual report and accounts provide a fair, balanced and understandable view of the Society's financial position and the Business Review contained in the annual report provides a fair evaluation of the Society's performance and development during the year.

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

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

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

Viability Statement

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

The Society uses a five year business planning model which is updated annually. Assumptions are built in for the statement of comprehensive income, statement of financial position and cashflow. Additionally, the Society's Actuarial Function Holder undertakes actuarial modelling in the form of a Financial Condition Report and, more recently, a Forward Looking Assessment of Own Risks (FLAOR). Each of these reports focuses on the Society's forecast of business activity over a ten year period, stress tested with a variety of scenarios, risk analyses and the impact of changes to assumptions.

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

Railway Enginemen's Assurance Society Limited

CORPORATE GOVERNANCE REPORT

Statement of Compliance with the annotated Corporate Governance Code

The Management Committee considers that throughout the year ended 31 December 2015, the Society has applied the relevant principles and complied with the relevant provisions of the annotated Corporate Governance Code issued by the Association of Mutual Insurers, except in respect of the following:

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

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

Approved by the Management Committee on 29 March 2016
and signed on its behalf

J W Goolamier
Chairman

Railway Enginemen's Assurance Society Limited

REMUNERATION REPORT

REMUNERATION REPORT

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

Management Committee members are provided with a daily attendance allowance for attending Committee meetings, training days and when they are required to represent the Society at business seminars and trade body conferences. For 2015 this was at the daily rate of £247 (2014: £237). Committee members are also paid a small annual fee which for the current tax year was at the following rates (previous tax year figures in brackets): Chairman - £2,725 (£2,600); sub-Committee Chairman - £2,040 (£1,950); sub-Committee member - £1,700 (£1,625); Management Committee member - £1,360 (£1,300). Travelling and subsistence allowances are paid where appropriate.

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

Fees, allowances, salary and benefits for 2015 were as follows:

	Fees and allowances £	Commission £	Salary £	Benefits £	Pension cost £	Total 2014 £
J W Goolamier	5,836	-	-	-	-	5,836
A Edwards	4,394	380	-	-	-	4,774
J McKenna	5,937	-	-	-	-	5,937
A D Rich	3,242	262	-	-	-	3,504
J S Turner (1)	1,574	-	-	-	-	1,574
R G Frier	6,049	-	-	-	-	6,049
L P Davies	2,795	361	-	-	-	3,156
R T Brushfield-Hodges	3,702	-	-	-	-	3,702
R Leddington	-	-	98,200	3,671	17,532	119,403
	33,529	1,003	98,200	3,671	17,532	153,935

The comparative figures for 2014 were as follows:

	Fees and allowances £	Commission £	Salary £	Benefits £	Pension cost £	Total 2013 £
J W Goolamier	4,598	-	-	-	-	4,598
A Edwards	3,858	447	-	-	-	4,305
J McKenna	4,567	-	-	-	-	4,567
A D Rich	2,854	222	-	-	-	3,076
J S Turner	2,911	-	-	-	-	2,911
R G Frier	4,367	-	-	-	-	4,367
L P Davies	2,820	592	-	-	-	3,412
R T Brushfield-Hodges (2)	1,844	-	-	-	-	1,844
R Leddington	-	-	94,464	3,564	16,860	114,888
	27,819	1,261	94,464	3,564	16,860	143,968

(1) Retired 22 June 2015

(2) Appointed 23 June 2014

Railway Enginemen's Assurance Society Limited

REMUNERATION REPORT

Some members of the Management Committee are also Depot Introducers for the Society and receive commission on policies sold. It is considered that the relatively insignificant value of these payments does not impact the independence of the individual Committee members. Terry Brushfield-Hodges undertakes retail compliance consultancy for the Society. In 2015 the total paid in respect of these services amounted to £11,909 (2014: £10,542). Roger Frier carried out a number of advisory projects on behalf of the Society for which he was paid fees of £5,562 (2014: £nil). It is considered that provision of these services does not impact either their independence or judgement as Management Committee members.

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

On behalf of the Management Committee

J W Goolamier
Chairman
29 March 2016

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

We have audited the financial statements on pages 23 to 42. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland".

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

Respective responsibilities of the Management Committee and auditor

The Management Committee's responsibilities for preparing the Annual Report and the financial statements are set out in the Statement of the Management Committee's Responsibilities on pages 17 to 18. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Society's affairs as at 31 December 2015 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

Opinion on other matters prescribed by the Friendly Societies Act 1992

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

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

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

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

In accordance with our instructions from the Society we review whether the Corporate Governance Report reflects the Society's compliance with the provisions of the Annotated UK Corporate Governance Code specified by the Association of Financial Mutuals (issued April 2015).

Our assessment of risks of material misstatement

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

The risk:

- the valuation of the long term business provision

The long term business provision is a significant and complex element of the financial statements and involves a significant degree of judgement in its calculation. The Society is advised on the actuarial matters, including the determination of the long term business provision by the Actuarial Function Holder. To assist the Management Committee in their consideration of this and other actuarial matters, the Actuarial Function Holder prepares a series of reports, including one regarding the assumptions and methodology for the actuarial valuation at 31 December 2015.

Our response:

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

With the assistance of the Reviewing Actuary, we have reviewed the Actuarial Function Holder's reports, reconfirmed our understanding of the basis of the determination of the long term business and assessed the appropriateness of the valuation methodology and the key assumptions, particularly around the valuation interest rate. We have also assessed the competence, capabilities and objectivity of the Actuarial Function Holder and considered the competence, capabilities and objectivity of the Reviewing Actuary. We have also reviewed the disclosures relating to liabilities and capital as set out in Note 18.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £250,000, which was not changed during the course of our audit.

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

An overview of the scope of our audit

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

CHARLES FRAY (Senior Statutory Auditor)

For and on behalf of RSM UK AUDIT LLP (formerly BAKER TILLY UK AUDIT LLP), Statutory Auditor
Chartered Accountants

St Philips Point
Temple Row
Birmingham
B2 5AF

29 March 2016

Railway Enginemen's Assurance Society Limited

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2015

	<i>Notes</i>	2015 £	2014 £
TECHNICAL ACCOUNT – LONG TERM BUSINESS			
INCOME:			
Earned premiums		4,360,562	4,222,434
INVESTMENT INCOME			
UNREALISED (LOSSES) / GAINS ON INVESTMENTS	4	1,366,720 (559,748)	1,288,671 1,244,501
		806,972	2,533,172
TOTAL INCOME		5,167,534	6,755,606
EXPENDITURE:			
Claims incurred	5	3,966,415	3,716,119
Change in Long Term Business Provision	13	(26,892)	861,840
Provision for bonuses – reversionary	13	516,630	602,325
		4,456,153	5,180,284
NET OPERATING EXPENSES			
Acquisition costs		223,009	185,242
Administrative expenses	7	687,921	610,811
		910,930	796,053
TOTAL EXPENDITURE		5,367,083	5,976,337
EXCESS OF (EXPENDITURE OVER INCOME) / INCOME OVER EXPENDITURE BEFORE TAXATION	6	(199,549)	779,269
TAXATION	10	(26,928)	(41,716)
TRANSFER (FROM) / TO FUND FOR FUTURE APPROPRIATIONS	13	(226,477)	737,553

All income and expenditure arises from continuing operations.

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

Railway Enginemen's Assurance Society Limited

STATEMENT OF FINANCIAL POSITION - ASSETS

31 December 2015

	<i>Notes</i>	2015 £	2014 £
INVESTMENTS	11		
Land and buildings		1,197,000	270,000
Other financial investments – long term fund		29,110,581	29,723,836
		<hr/>	<hr/>
		30,307,581	29,993,836
DEBTORS			
Debtors from direct insurance operations – Members		326,817	326,175
Other debtors		24,261	227
		<hr/>	<hr/>
		351,078	326,402
OTHER ASSETS			
Tangible fixed assets	12	27,230	10,497
Cash at bank and in hand		372,830	447,708
		<hr/>	<hr/>
		400,060	458,205
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		416,828	436,319
Other prepayments and accrued income		37,072	30,512
		<hr/>	<hr/>
		453,900	466,831
		<hr/>	<hr/>
		31,512,619	31,245,274
		<hr/> <hr/>	<hr/> <hr/>

Railway Enginemen's Assurance Society Limited

STATEMENT OF FINANCIAL POSITION - LIABILITIES

31 December 2015

	<i>Notes</i>	2015 £	2014 £
FUND FOR FUTURE APPROPRIATIONS	13	6,793,502	7,019,979
TECHNICAL PROVISIONS			
Long Term Business Provision	13	24,027,475	23,452,042
Provision for bonuses	13	516,630	602,325
Claims outstanding		62,802	60,157
		<hr/>	<hr/>
		24,606,907	24,114,524
PROVISION FOR OTHER RISKS AND CHARGES			
Deferred taxation	10	-	-
CREDITORS			
Other creditors including taxation and social security	14	9,897	21,566
ACCRUALS AND DEFERRED INCOME		102,313	89,205
		<hr/>	<hr/>
		31,512,619	31,245,274
		<hr/> <hr/>	<hr/> <hr/>

Approved and authorised for issue by the Management Committee on 29 March 2016

J W Goolamier - Chairman

J McKenna - Management Committee Member

R Leddington - Chief Executive & Secretary

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

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.

Prior to the implementation of FRS 102 and FRS 103 the financial statements were prepared in accordance with UK GAAP. The transition to the new financial reporting standards did not result in any financial adjustments nor has it resulted in any changes to the Society's accounting policies.

In accordance with FRS 103 on Insurance Contracts, the Society has applied existing accounting practices for insurance contracts.

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 in Note 2. 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

CLAIMS

Claims payable on maturity are recognised when the claim becomes due for payment and on death are accounted for on notification. Disability claims are accounted for at the earlier of the payment date or when the policy ceases to be included within the Long Term Business Provision. The value of claims includes bonuses paid or payable. Surrenders are accounted for at the payment date.

Provisions are adjusted at the statement of financial position date to represent an estimate of the expected outcome.

ACQUISITION COSTS

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

PENSION CONTRIBUTIONS

The Society contributes to 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 the statement of comprehensive income for the period in which they arise.

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

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

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 FIXED ASSETS

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

Fixtures, fittings and equipment	5 years
Motor vehicles	4 years

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

LONG TERM INSURANCE LIABILITIES

The Long Term Business Provision is determined by the Management Committee on the advice of the Actuarial Function Holder as part of the annual actuarial valuation of the Society's assets and liabilities. The provision is initially determined in accordance with the requirements of the Prudential Sourcebook for Insurers. In accordance with normal insurance practice, certain reserves required for the statutory valuation returns are not required to be included in these accounts.

The Reserves and Technical Provisions in the financial statements including the Provision for Bonuses reflect the results of the valuation. Further details are provided in Note 18.

This adjusted basis is referred to as the modified statutory solvency basis. This makes sufficient provision for future expenses of fulfilling the long-term contracts and includes a provision for existing reversionary bonuses and current reversionary bonuses declared as a result of the valuation.

Future reversionary bonuses are implicitly provided for by use of the valuation rates of interest below those expected.

BONUSES

The provision for bonuses is released to the Long Term Business Provision when the bonus is declared by the Management Committee.

FOREIGN CURRENCIES

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

FUND FOR FUTURE APPROPRIATIONS

The Fund for Future Appropriations (FFA) represents the excess of assets over and above the long-term insurance contract liabilities and other liabilities. The FFA is the surplus accumulated that has not yet been allocated to policies. It forms the working capital of the Society and is available to meet risk and capital requirements, as well as any uncertain additional liabilities that may arise. Any profit or loss for the year arising through the Statement of Comprehensive Income is transferred to or from the FFA.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

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.

2 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.

LONG TERM BUSINESS PROVISION

The valuation of the Society's individual policy liabilities is based on assumptions reflecting the best estimate at the time plus a prudent margin.

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

The assumptions used for the valuation interest rates are based on current market risk rates, adjusted for the Society's own risk exposure. 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.

3 CAPITAL AND RISK MANAGEMENT

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

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

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

MEASUREMENT AND MONITORING OF CAPITAL

The capital position of the Society is monitored on a regular basis and reviewed formally on a monthly basis by the Management Committee. The Society maintains a benchmark for the statutory free assets in excess of the Long Term Business Provision and required margin of solvency.

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, a change in investment strategy or reducing business volumes.

FUND VALUATION

The whole of the Society's assets and liabilities are subject to an annual actuarial valuation in accordance with the rules in IPRU (FSOC) and using assumptions and methods in line with the PRA's requirements. Allowance is made for actions that management would take in adverse conditions, such as reducing bonus rates and surrender rates.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

4	INVESTMENT INCOME	2015	2014
		£	£
	Income from investments:		
	Listed	1,032,223	1,100,266
	Land and buildings	19,659	-
	Mortgage interest	15,383	15,771
	Other interest receivable	62,155	75,151
		<hr/>	<hr/>
	Net gains on realisation of investments	1,129,420	1,191,188
		237,300	97,483
		<hr/>	<hr/>
		1,366,720	1,288,671
		<hr/> <hr/>	<hr/> <hr/>
5	CLAIMS INCURRED	2015	2014
		£	£
	Expenditure for the year comprises:		
	Claims for benefit:		
	Retired members (aged 65)	43,658	71,189
	(aged 60)	87,413	110,510
	Disabled members	185,707	66,019
	Deceased members	47,582	44,574
	Endowments	2,750,709	2,563,332
	Rebates	851,346	860,495
		<hr/>	<hr/>
		3,966,415	3,716,119
		<hr/> <hr/>	<hr/> <hr/>
6	EXCESS OF INCOME OVER EXPENDITURE BEFORE TAXATION	2015	2014
		£	£
	Excess of income over expenditure before taxation is stated after charging:		
	Depreciation	9,066	8,920
	Profit on disposal of tangible assets	4,708	-
	Auditor's remuneration:		
	Audit services	48,720	46,044
	Non-audit services	3,600	3,540
	Actuary's remuneration	83,775	68,083
		<hr/> <hr/>	<hr/> <hr/>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

7	ADMINISTRATIVE EXPENSES	2015 £	2014 £
	Salaries and national insurance	301,967	278,570
	Premium collection services	50,018	50,111
	Expenses of committees and agents	49,248	38,540
	General office expenses	109,913	89,705
	Professional fees	176,775	153,885
		<u>687,921</u>	<u>610,811</u>
8	EMPLOYEES	2015 No.	2014 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>
		2015 £	2014 £
	Staff costs for above persons:		
	Wages and salaries	290,967	275,504
	Social security costs	32,672	28,940
	Other pension costs	51,040	44,261
		<u>374,679</u>	<u>348,705</u>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

9 CHIEF EXECUTIVE AND COMMITTEE MEMBERS

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

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

	2015 £	2014 £
Emoluments paid to members during the year:		
Fees and allowances	33,529	27,819
Salaries and benefits in kind	101,871	98,028
Pension costs	17,532	16,860
	<u>152,932</u>	<u>142,707</u>

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

	2015 No	2014 No
Not more than £5,000	5	8
More than £5,000 but not more than £10,000	3	-
More than £95,000 but not more than £100,000	-	1
More than £100,000 but not more than £105,000	1	-
	<u>9</u>	<u>9</u>

	2015 £	2014 £
Chairman:- Emoluments J W Goolamier	5,836	4,597

	2015 £	2014 £
The highest paid member:- Remuneration	98,200	94,464
Benefits in kind	3,671	3,564
	<u>101,871</u>	<u>98,028</u>
Emoluments	<u>101,871</u>	<u>98,028</u>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

10	TAXATION	2015	2014
		£	£
	Current tax:		
	UK Corporation tax on profits of the period	-	14,303
	Irrecoverable tax on franked investment income	26,928	27,413
	Adjustment in respect of previous periods	-	-
		-----	-----
	Total current tax	26,928	41,716
		-----	-----
	Deferred tax:		
	Origination and reversal of timing differences		
	current year	-	-
	prior year	-	-
		-----	-----
	Total deferred tax	-	-
		-----	-----
	Tax on surplus on ordinary activities	26,928	41,716
		=====	=====
		2015	2014
		£	£
	DEFERRED TAX:		
	Movement in deferred tax for the period:		
	At 1 January	-	-
	Credit in profit and loss account	-	-
		-----	-----
	At 31 December	-	-
		=====	=====
	The deferred tax (asset) / liability comprises:		
		Provided	Unprovided
		2015	2014
		2014	2015
		£	£
		£	£
	Accelerated capital allowances and other		
	short term timing differences	3,880	1,477
	Unrealised loss on investments	-	-
	New business spreading	-	(41,772)
	Revaluation of investments	(3,880)	40,295
	Capital losses	-	-
	Excess management expenses	-	-
		-----	-----
		-	-
		-----	-----
		(105,091)	(49,887)
		=====	=====

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

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

11	INVESTMENTS	2015 £	2014 £
	Land and buildings		
	Investment property	907,000	-
	Office property	290,000	270,000
		<hr/>	<hr/>
		1,197,000	270,000
		<hr/> <hr/>	<hr/> <hr/>

The Society's investment properties were professionally valued at 31 December 2015 by Walker Singleton, Chartered Surveyors, on an open market basis.

The Society occupied property, was professionally valued by Silk Plant & Associates, Chartered Surveyors, at 31 December 2015 on an open market basis.

Other financial investments:

	Current value		Historic cost	
	2015 £	2014 £	2015 £	2014 £
Listed:				
British Government and Local Authority stocks	7,891,919	9,103,053	7,920,021	8,776,157
UK and Overseas Equities	5,137,974	6,249,728	5,164,511	5,738,581
Unit & Investment Trusts	3,627,819	1,821,361	3,539,245	1,831,640
UK and Overseas Fixed Interest Securities	11,116,413	11,160,287	11,183,102	10,660,043
	<hr/>	<hr/>	<hr/>	<hr/>
	27,774,125	28,334,429	27,806,879	27,006,421
Unlisted:				
Loans secured by mortgages	283,145	291,073	283,145	291,073
Other loans	1,053,311	1,098,334	1,053,311	1,098,334
	<hr/>	<hr/>	<hr/>	<hr/>
	29,110,581	29,723,836	29,143,335	28,395,828
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 2015

12 TANGIBLE FIXED ASSETS	Motor vehicles £	Fixtures, fittings and equipment £	Total £
Cost			
1 January 2015	28,169	101,821	129,990
Additions	29,034	3,808	32,842
Disposals	(28,169)	-	(28,169)
	<hr/>	<hr/>	<hr/>
31 December 2015	29,034	105,629	134,663
Depreciation			
1 January 2015	21,126	98,367	119,493
Charge for the year	7,259	1,807	9,066
Eliminated on disposals	(21,126)	-	(21,126)
	<hr/>	<hr/>	<hr/>
31 December 2015	7,259	100,174	107,433
Net book value			
31 December 2015	21,775	5,455	27,230
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
31 December 2014	7,043	3,454	10,497
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

13 RESERVES AND TECHNICAL PROVISIONS

	Fund for Future Appropriations £	Long Term Business Provision £	Provision for bonuses: Reversionary £
1 January 2015	7,019,979	23,452,032	602,235
Release of bonus provision	-	602,325	(602,235)
Provision for bonuses	-	-	516,630
Transfer from technical account	(226,477)	(26,892)	-
	<hr/>	<hr/>	<hr/>
31 December 2015	6,793,502	24,027,475	516,630
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The whole of the Society's assets and liabilities are subject to an annual actuarial valuation in accordance with the asset valuation rules set out in Appendix 4 of IPRU (FSOC) and Section 46 of the Friendly Societies Act 1992. The valuation is carried out by 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 2015

14	CREDITORS	2015 £	2014 £
	Payable within 12 months otherwise than by instalments:		
	Other creditors including taxation and social security	9,897	21,566

15 PENSION CONTRIBUTIONS

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

The pension charge for the year amounted to £41,062 (2014: £38,013).

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

The appointed Actuarial Function Holder and With-Profits Actuary of the Society is Mrs Alison 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 2015 totalled £83,775 (2014: £68,083).

17 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.

	2015		2014	
	Number of persons	Amount £	Number of persons	Amount £
Life assurance policies:				
Premiums paid during the year	11	14,374	11	17,419
Total sum assured as at 31 December	10	237,066	11	235,614

Commission of £1,003 (2014: £1,261) 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 19.

During the year R G Frier had a mortgage with the Society. Interest of £13,427 (2014: £12,822) has been charged. At 31 December 2015 £259,984 (2014: £259,556) was owed to the Society in respect of the mortgage.

During the year R T Brushfield-Hodges was paid £11,909 (2014: £10,542) and R G Frier was paid £5,562 (2014: £nil) 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 2015

18 FRS 103 LONG TERM INSURANCE CONTRACTS

The Long Term Business Provision (LTBP) has been calculated by the Actuarial Function Holder in line with methods laid out in the IPRU (FSOC).

The assumptions used in valuing the liabilities are as determined by the Management Committee having regard to the advice of the Actuarial Function Holder. An overview of the method used to set the assumptions is included in the table below.

The key assumptions are as follows:

Valuation Basis Summary	31 December 2015	31 December 2014	Process for setting assumptions
Method	Net premium	Net premium	The method is prescribed by the regulations.
Interest Rate			The valuation interest rate is determined from the yields available on the assets held by the Society, appropriately reduced for risks and allowing for investment expenses. The yield is restricted to a maximum of the 15 year gilt yield.
Taxable business	1.44%	1.44%	
Tax-exempt business	1.80%	1.80%	
Allowance for expenses	20% of gross premiums	20% of gross premiums	The allowance for expenses is set to be sufficient to cover the projected future non-acquisition expenses, including a prudent margin, assuming that the current business continues to maturity. It was also compared to the non-exceptional expenses incurred in the previous year.
Allowance for future bonus	£516,630	£602,325	This is based on the expected bonus declaration allowing for anticipated future mortality and morbidity and assumes no surrenders.
Mortality			The mortality assumptions are based on the Society's experience over the previous five years, with a prudent margin. Any trend in the experience is monitored and if necessary the assumption is adjusted.
Aged 17 and over	80% AMC00/AFC00 ultimate	80% AMC00/AFC00 ultimate	
Under age 17	50% ELT15	50% ELT15	AMC00 and AFC00 are generated by the actuarial profession based on experience of UK insured lives during 1999-2002. ELT15 is based on the mortality experience of the population of England and Wales during 1990-92.
Morbidity	50% of the rates derived from the Society's past disability experience	50% of the rates derived from the Society's past disability experience	The morbidity assumptions are based on the Society's experience over the previous five years, with a prudent margin. Any trend in experience is monitored and if necessary the assumption is adjusted.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

18 FRS 103 LONG TERM INSURANCE CONTRACTS (continued)

Additional reserves are also required as part of the IPRU (FSOC) statutory requirements. The resilience and closure reserves do not form part of the LTBP however they do form part of the total available capital resources that determine the Society's capital in excess of statutory requirements. The reserves are calculated on the following basis:

	31 December 2015	31 December 2014
Resilience Reserve	£785,238	£486,960
The resilience reserve is a provision against market risk. Specifically, it considers the risks of a fall in the current market value of assets relative to the value of liabilities.	10% drop in equity values with earnings falling by 10%, and property falling by 20% combined with a 0.48% drop in bond yields	10% drop in equity values with equity earnings falling by 10% combined with a 0.44% drop in bond yields
Two scenarios of future changes in the value of assets are tested in order to determine whether a resilience reserve should be established in accordance with IPRU (FSOC).	10% drop in equity values with earnings falling by 10%, and property falling by 20% combined with a 0.48% rise in bond yields	10% drop in equity values with equity earnings falling by 10% combined with a 0.44% rise in bond yields
Closure Reserve	£282,770	£Nil
The closure reserve is a provision to meet future costs if the Society closed to new business 12 months after the valuation date.	Assumed pattern of future costs, policy run off and inflation. The basis of the future costs is provided by the Society.	Assumed pattern of future costs, policy run off and inflation. The basis of the future costs is provided by the Society.

RISK MANAGEMENT AND CONTROL

A key part of the Society's risk management programme 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 2015

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.

INSURANCE RISK

Insurance risk is the risk of loss due to actual experience differing from predicted experience in respect of claims, policyholder behaviour and expenses.

The Society provides life assurance policies, some of which include disability cover.

Concentration of insurance risk

The Society's members are all employed (or previously employed) by the railway industry or are the families of such employees. This means that risks are concentrated within one employment sector. This could affect lapse risk (through changes in the railway industry affecting members' financial positions). It could also affect mortality and morbidity risk, e.g. through unsafe practices in the industry leading to accidents or illness.

The following risk factors are components of insurance risk:

Mortality risk

This is the risk that death claims are different to the assumptions used for the actuarial valuation, adversely affecting income. The Society's mortality assumption reflects claim experience over a 5 year period and includes a prudent margin.

Morbidity risk

This is the risk that disability claims are different from the assumptions made for actuarial valuation purposes, adversely affecting income. The Society's morbidity assumption reflects claim experience over a 5 year period and includes a prudent margin.

Lapse risk

This is the risk that withdrawals and lapse rates are different from those assumed. Lapses that are higher than assumed can have a detrimental impact on surplus especially if the initial policy costs have not been recovered. Withdrawals that are lower than assumed can also reduce surplus as the liabilities will be higher than initially anticipated.

Expense risk

This is the risk that expense levels will be higher than assumed. This can arise from an increase in expenses through inflation or unexpected costs.

The Society manages insurance risk by reviewing product pricing including surrender values on a regular basis. Additionally experience studies are carried out annually, the outcome of which is used to update the valuation of insurance contract liabilities.

The actuarial assumptions used in the measurement of the insurance contract liabilities take insurance risk factors into account. Sensitivities to changes in actuarial assumptions are provided in the 'Sensitivity analysis' section of this note.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

18 FRS 103 LONG TERM INSURANCE CONTRACTS (continued)

CREDIT RISK

Credit risk is the risk of possible losses due to unexpected default, or deterioration in the credit standing, of counterparties and debtors. This could lead to impairments or provisions in relation to the Society's assets which would then require a corresponding adjustment to the insurance contract liabilities. The approved investment strategy sets out the policies and procedures to manage this risk. Specific parameters have been established to minimise concentration of exposure to a single counterparty; to limit the purchase of fixed income securities to investment grade assets; and to specify maximum limits for fixed income securities by credit rating. The investment portfolio is reviewed regularly with the Management Committee and the investment strategy is reviewed at least annually with the Actuarial Function Holder.

Concentration of credit risk

Concentration of credit risk arises from exposure to a single counterparty or group of related counterparties. The Society has exposure limits to ensure that the portfolio is diversified across asset classes and individual investment risks.

LIQUIDITY RISK

Liquidity risk is the risk that the Society will not be able to meet its liabilities as they fall due. The Society's liquidity requirements are monitored using forecasted cash flows and based on these forecasts the Society has sufficient liquidity to meet expenses and claims as they fall due.

MARKET RISK

Market risk is the risk that the value of a financial instrument will fluctuate because of the changes in future cash flows. Market risk comprises of at least three types of risk:

Interest rate risk

This is if asset and liability cash flows are not closely matched and interest rates change, causing a difference in value between assets and liabilities.

The Society mitigates its exposure to interest rate risk closely matching the policy liability durations. Protection against interest rate change is achieved as any change in the market value of the assets will be offset by a similar change in the market value of the liabilities.

Equity market risk

Some insurance contract liabilities with a long duration are supported by equities. There will be additional impact on these liabilities with related changes in surplus as equity markets fluctuate. The resilience reserve includes allowances for fluctuations in equity market values.

Currency risk

Currency risk for investments arises if there is a mismatch between the currency of the insurance contract liabilities and the currency of the assets designated to support those liabilities. The Society matches the currency of its assets with the currency of its liabilities to mitigate exposure to fluctuating exchange rates.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

18 FRS 103 LONG TERM INSURANCE CONTRACTS (continued)

SENSITIVITY ANALYSIS

Any changes to assumptions can have an impact on the Long Term Business Provision (LTBP). The following scenarios determine the sensitivity of the LTBP against changes in assumptions.

If the gross valuation interest rate were to increase by 0.5% for both taxable and tax exempt business to 1.04% and 1.3% respectively, the LTBP would decrease by £840,371. If the gross valuation interest rate were to reduce by 0.5% for both taxable and tax exempt business to 1.84% and 2.3% respectively the LTBP would increase by £1,021,901.

An increase in expense allowance, caused by an increase in management expenses above 20% of gross premiums would result in an increase in the LTBP. A 10% increase in expense allowance (to 22% of gross premiums) would increase the LTBP by £553,728. Similarly a decrease in expense allowance, caused by a reduction in management expenses, of 10% would result in a decrease in the LTBP of £517,359.

The mortality and morbidity rates do not have a significant impact on the LTBP. If morbidity rates were to increase by 20% this would increase the LTBP by £73,704 and if it were to reduce by 20% the LTBP would decrease by £68,546. In addition if the mortality rates were to increase or decrease by 20% the LTBP would increase by £38,950 and decrease by £38,291 respectively.

SUMMARY

The total available capital resources of the Society for UK regulatory purposes:

	2015	2014
	£'000	£'000
Available capital resources in respect of life assurance business:		
Fund for Future Appropriations	6,794	7,020
Adjustment to assets onto a regulatory basis	(35)	(16)
Resilience reserve	(785)	(487)
Closure reserve	(283)	-
	<hr/>	<hr/>
Total available capital resources	5,691	6,517
Capital resources requirement	(1,112)	(1,065)
	<hr/>	<hr/>
Excess capital over regulatory requirements	4,579	5,453
	<hr/>	<hr/>

Restrictions on Available Capital

The available surplus held in the Society's Long Term Business Provision can only be applied to meet the requirements of the fund itself or be distributed to the Members.

Basis of Calculation of Capital Requirements

The capital resource requirement of £1,111,516 (2014: £1,064,517) is the capital requirement required by PRA regulations.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015

18 FRS 103 LONG TERM INSURANCE CONTRACTS (continued)

As at 31 December 2015, the Society's total available capital resources moved from £6,517,121 to £5,690,764 which is 512% of the capital requirement.

The table below summarises the movement of capital:

Movement in Capital Resources:

	2015	2014
	£'000	£'000
Opening capital resources	6,517	5,454
Change in economic assumptions	(298)	(750)
Change in demographic assumptions	-	246
Provision for bonus	(517)	(602)
Net investment income	432	2,093
Claims surplus	291	259
Change in closure reserve	(283)	35
Expense surplus	187	245
Net new business and other	(638)	(463)
	<hr/>	<hr/>
Balance at 31 December	<u>5,691</u>	<u>6,517</u>