

Railway Enginemen's Assurance Society Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended

31 December 2020

Railway Enginemen's Assurance Society Limited

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Railway Enginemen's Assurance Society Limited

OFFICERS, ADVISERS AND REGISTERED OFFICE

MANAGEMENT COMMITTEE

J W Goolamier Chair
M A Casey Deputy Chair
M A Bicknell
R T Brushfield-Hodges
L P Davies
A Edwards (resigned 31 August 2020)
J McKenna
D I Storrie
R A J Townsley

CHIEF EXECUTIVE AND SECRETARY

M A Bicknell BA (Hons), ACA

REGISTERED OFFICE
727 Washwood Heath Road
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AUDITORS

BHP LLP
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Sheffield
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CHIEF ACTUARY AND WITH-PROFITS ACTUARY

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SOLICITORS

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Birmingham
B3 2RT

BANKERS

NatWest Bank plc
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INVESTMENT MANAGERS

LGT Vestra LLP
14 Cornhill
London
EC3V 3NR

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

INTERNAL AUDITORS

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

THE SOCIETY IS:

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

Railway Enginemen's Assurance Society Limited

MANAGEMENT COMMITTEE'S ANNUAL REPORT

MANAGEMENT COMMITTEE'S ANNUAL REPORT

The Management Committee has pleasure in presenting its Annual Report and the Financial Statements of the Society for the year ended 31 December 2020. The Financial Statements have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994, the Friendly Societies Act 1992 and United Kingdom Generally Accepted Accounting Practice. The Society's technical provisions have been calculated in accordance with the Solvency II Delegated Text and associated guidelines.

BUSINESS OBJECTIVES AND ACTIVITIES

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

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

TANGIBLE ASSETS

The changes in the Society's tangible assets are shown in Note 11 of the Financial Statements.

MANAGEMENT COMMITTEE

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

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

MANAGEMENT COMMITTEE RESPONSIBILITIES

Legislation requires the Management Committee to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Society at the year-end and of the income and expenditure of the Society for that period. In preparing those Financial Statements, the Management Committee is required to:

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

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

The Management Committee is also responsible for ensuring that the Society:

- keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society;

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MANAGEMENT COMMITTEE'S ANNUAL REPORT

- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the regulators under the Financial Services and Markets Act 2000 and other applicable legislation.

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

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

STATEMENT OF DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the persons who is a Director at the date of this report confirms that, so far as each of them is aware, there is no information relevant to the audit of the Society's Financial Statements for the year ended 31 December 2020, of which the Auditor is unaware.

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

VIABILITY STATEMENT

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

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

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

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

COMPLAINTS PROCEDURE

The Society aims to provide the highest possible level of service to its members. We operate a formal procedure for dealing with complaints and are committed to resolve quickly and efficiently any that arise.

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MANAGEMENT COMMITTEE'S ANNUAL REPORT

A complaint that cannot be resolved through the Society's internal process can be referred to the Financial Ombudsman Service, details of which can be obtained from the Society's registered office. Any complaints that might fall outside the scope of the Ombudsman's Scheme will be handled in accordance with the Society's Rules.

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

THANKS AND APPRECIATION

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

AUDITORS

BHP LLP has informed the Society that it will step down as statutory auditor following the conclusion of the 2020 year-end audit. The Audit and Risk Management sub-Committee is currently undertaking a procurement exercise to appoint a new statutory auditor for the 2021 year-end and beyond. The Management Committee thanks BHP LLP for the service that it has provided to the Society since its appointment as statutory auditor in 2017.

Approved by the Management Committee on 31 March 2021 and signed on its behalf.



J W Goolamier
Chair

Railway Enginemen's Assurance Society Limited

STRATEGIC REPORT

STRATEGIC REPORT

Introduction

2020 was a year like no other and it is safe to say that life will never be quite the same again. Large swathes of the economy were shut down and restrictions on daily life that would have been unthinkable prior to 2020 were imposed as the UK government sought to limit the spread of the Coronavirus.

The scale of the government's financial response in terms of monetary and fiscal support is unprecedented in peacetime and has had a substantial impact on the public finances. Central government tax receipts in the 9 months to December 2020 fell by £39.6bn (7.8%) compared to the same period in 2019. In the same period, government support for individuals and businesses during the pandemic contributed to an increase of £169.3bn (30.7%) in central government day-to-day spending. By the end of the year, the UK economy had contracted to the point that it was 8.6% smaller than at the end of 2019. In the last quarter of 2020, redundancies set a new record high, reaching a peak of 395,000. In addition, between February 2020 and the year-end, the number of payroll employees in the UK had fallen by 827,000.

Several vaccines received medical approval towards the end of 2020, which was a hugely positive step forward. The subsequent rapid roll-out of the vaccination programme provided hope of a return to some form of normality in 2021.

At Railway Enginemen's, our staff had to adapt very quickly to a new way of working to ensure that the excellent levels of service our members had come to expect could be maintained. Our priority throughout has been the well-being of our members and staff and we have taken all necessary measures to ensure that the Society continues to operate effectively whilst maintaining the safety of our employees. Due to the lockdown restrictions, our Area Representatives and Depot Introducers were also unable to operate in the normal way. However, this provided a further impetus to accelerate the development of our new distribution channels and bring a greater degree of diversification to the Society's business model. Unfortunately, the need to focus on essential operational activity caused a temporary set-back to our product development work, but this is expected to pick up pace in 2021.

Against a backdrop of a global public health emergency and economic crisis, the Society has continued to generate encouraging levels of new business, whilst carefully controlling its overhead costs. We have maintained the focus on our core strengths of exceptional member service and keeping things as simple and straightforward as possible. We also recognise that we are extremely fortunate to have a membership with a strong ethos of self-provision when it comes to their families' futures. This financial discipline is one of which they are rightly proud and encourage amongst their colleagues.

The key priorities of the Society remain to:

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

Impact of Covid-19 on the Society

During 2020 and into 2021, the Society has seen the devastating impact on human life of the COVID-19 pandemic. As a result of fears over the spread of the virus and the impact of the containment measures put in place, there was severe downward pressure on share prices and significant stockmarket volatility.

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Following the market falls relating to COVID-19, the Society decided to reduce its final bonus rates and surrender value factors with the aim of continuing to pay a fair share to those claiming, thus treating all policyholders fairly. The Society's normal practice is to apply smoothing across the year, with its surrender value factors and final bonus rates only changed annually. The Society's investments, which are approximately two-thirds bonds, with the remainder mostly in equities plus some property and deposits, generally held up well to the market falls. In December, the final bonus rates and surrender value factors were increased back to the levels originally agreed for the year. The normal process has been used to set these at the December 2020 valuation, leading to generally higher rates and factors. However, the Society is receiving regular updates on the value of its investments and will change the rates again if justified by asset values rising or falling significantly.

Despite the COVID-19 pandemic, overall 2020 death claims were within their normal range. There is general uncertainty about the long-term effects of COVID-19, both through "long Covid" and through treatments for other illnesses that have not taken place due to the pandemic, but the Society's products are not particularly sensitive to increases in mortality or morbidity, so this does not create any material concerns.

However, there have been reductions in surrenders and new business. A reduction in surrenders during the pandemic is a pattern seen by many insurers and is likely to be related to "accidental saving" from a reduction in spending due to restrictions, with jobs in the railway industry largely sheltered from the pandemic due to government intervention. The reduction in new business is mainly related to the inability of the Area Representatives, the Society's main source of sales, to have face-to-face interaction with members during the pandemic. This has been partially offset by expansion of sales via other distribution channels through increased marketing. Given these initiatives and that the reduced new business was largely offset by reduced surrenders, we do not anticipate a significant effect in the long term. However, new business levels will continue to be closely monitored.

The Society is in a good solvency position. At 31 December 2019, it had Own Funds of 237% of the Solvency Capital Requirement (SCR). Own Funds remained significantly above the SCR during 2020, with Own Funds at 31 December 2020 of approximately 217% of the SCR. Further information is provided in the Society Solvency Position which follows.

We will continue to closely monitor the impact of COVID-19 on the operating performance of the Society. We will also maintain our monitoring of the valuation of assets and the valuation of technical provisions, which are sensitive to movements in risk-free rates. The Society's business model is very reliant on the UK railway industry, although it is slowly expanding into other areas. Therefore, we will continue to monitor the industry, following the changes to the franchising model, the outcome of the Williams Review and the potential long-term effects on demand for public transport due to changes in working patterns.

We have no material concerns relating to the effects of COVID-19 on the Society.

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Society Solvency Position

The Society's solvency position was closely monitored throughout the year and remains strong. The Solvency II balance sheet is set out below:

	31 December 2020	31 December 2019
	£000	£000
Assets	37,255	36,133
Technical Provisions	27,914	26,763
Other Liabilities	599	473
Own Funds	8,742	8,897
Capital Requirements	4,028	3,753
Assets in excess of Capital Requirements	4,715	5,144

The Society's Own Funds were £8,742k (2019: £8,897k). Own Funds are essentially the surplus accumulated that has not yet been allocated to policies. It forms part of the working capital of the Society and is available to meet risk and capital requirements, as well as any uncertain additional liabilities that may arise in the future.

Assets increased by approximately £1.1million due to an overall increase in market values. Technical provisions increased by approximately £1.15million. The change in technical provisions is mainly due to a fall in risk-free rates and an increase in assumed future bonuses offset by a fall in the business in force.

The increase in the Society's Capital Requirement is mainly attributable to the following factors:

- An increase in equity holdings and holdings in non-sterling assets; and
- An increase in the transitional element that applies to directly held equities purchased before January 2016, which increases year on year, although partly offset by a more negative symmetric adjustment.

Membership

The premiums from members' policies are invested in the Society's With-Profits Fund. This aims to provide growth over the long term whilst giving some protection against short-term market fluctuations. 2020 has shown that investing in a multi-asset fund offering a broad exposure to equities, bonds, property and cash provides a good balance for our members.

We have continued to offer our products on a non-advised basis only, through our network of Area Representatives and Depot Introducers. The lockdown restrictions arising from the COVID-19 pandemic severely restricted the sales activity of our Area Representatives, who were unable to access railway premises for most of the year. These restrictions also meant that the full launch of our partnership with REPTA had to be postponed until 2021. On a more positive note, towards the end of the year we successfully recruited new Depot Introducers at Chester, Didcot and Leeds and finalised plans for new Area Representatives in Devon and Surrey.

During 2020, we recognised that the Covid-19 pandemic was accelerating some of the changes in the financial services landscape and customer preferences that had been developing for several years. The investment that the Society had made in 2019 with a new website meant that we were well positioned to adapt to these changes quickly. During the year, we have seen an increasing proportion of our business coming through the website and from a series of digital marketing initiatives.

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The Management Committee is conscious that our members have always been our strongest advocates and a key contributor to our ongoing success. During 2020, we saw a small, but increasing amount of new business being generated by our new 'Refer a Friend' scheme. This provides members with a small reward if they are successful in recruiting new members to us. It is hoped that over time this new initiative will help to turn around the steady decline in membership numbers that the Society has seen for several years.

In the year, 1,883 new policies were admitted. These policies accounted for combined new sums assured of £4,530,278. New business levels equated to approximately £175 per week of weekly premium compared to approximately £220 in 2019. This means that despite the lockdown measures severely limiting the activity of our main distribution channel i.e. Area Representatives, the Society still achieved new business levels at approximately 80% of the prior year level. This healthy level of new business is a major achievement in the context of a global pandemic, a difficult economic climate and an ongoing low interest rate environment.

Policies Summary	2020	2019
Number of policies at 31 December	17,745	18,168
Number of members	4,240	4,374
Number of new policies	1,883	2,347

Premiums earned for the year were marginally higher at £4,446,708 against the £4,424,534 achieved in 2019. This is largely due to the much lower than anticipated level of surrenders.

Claims

Claims amounting to £4,343,248 were paid out during the year against the £4,186,945 paid out in 2019. The vast majority of claims represent maturity payments for policies taken out 10 or more years ago. Maturity payouts were £3,505,129 during the year compared to £2,907,870 in 2019. Death claims fell to £75,342 compared with £108,068 in 2019, whilst disability claims fell to £59,817 compared with £101,227 in 2019. Payouts as a result of members surrendering their policies early were significantly lower at £702,960 compared to £1,069,780 in 2019. The reason for the reduction in surrenders is not clear and emerging trends continue to be kept under review. We are proud of the speedy and efficient way in which our friendly and professional head office team process claims. We strive to be there for our members when they need us most.

Investments

Despite a very unusual year for global investment markets, the Society's With-Profits Fund delivered a positive return. The strong solvency position with which we entered the year and our cautious investment strategy enabled the Society to remain invested and weather the market volatility.

During 2020, the Society continued to work in close partnership with LGT Vestra in the management of its investment portfolio. The firm's proactive fund management approach supports the identification of suitable opportunities as they arise whilst working within the investment parameters of the Society's risk profile and Investment Policy and the advice of the Chief Actuary. The performance of the portfolio managed by LGT Vestra exceeded both our internal benchmark and the FTSE All-Share index. Some of this performance can be attributed to the equities portfolio, which was up over 7% on the year, despite the fact that global equities were down over 30% at one point in March 2020. Good performers within the equities element of the portfolio were technology stocks such as Amazon, Ocado and Adobe, as these companies proved impervious to the pandemic as the crisis unfolded. The quality focused funds such as Fundsmith and LT Global also managed to outperform, proving the benefit of holding strong companies

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with solid balance sheets and clear competitive advantages. The bonds element of the portfolio also performed well during the year, providing a counterweight to equities as investors sought safer assets during the market sell off.

Investment disposals incurred net realised losses of £317,143 against the net realised gains of £121,003 generated in 2019. At the end of the year there were unrealised gains of £1,462,223 in the value of investments held, compared to unrealised gains of £1,950,140 at the end of 2019. The market value of investment holdings managed by LGT Vestra at the close of 2020 was £32,173,580, up from £30,308,396 at the close of 2019.

The Society has also continued to work well with our property advisors, Walker Singleton of Halifax, in the management of our commercial property portfolio. Despite the widely-reported challenges faced by the commercial property market during the pandemic, the Society's portfolio held up very well. Rents from the properties were almost unchanged at £203,397 in 2020 compared to £203,899 in 2019. The combined value of the Society's commercial property holdings, along with the head office at Birmingham, totalled £2,940,000, up marginally on the 2019 valuation of £2,920,000.

Additionally, there were bank balances of £800,085 at the end of 2020 compared to £1,260,884 at the end of the previous year.

We remain watchful for both short and long-term changes to economies and markets. The lockdown has meant that consumer purchasing patterns have changed significantly during the pandemic. New virus strains and other factors mean that there remains a significant degree of uncertainty to navigate. Whilst we anticipate some further turbulence in investment markets as we look to the future, we are of the firm view that it is in the members' interests to continue with our Investment Policy by managing the Fund through short-term volatility and focusing on the long-term picture. We will continue to work closely with our Chief Actuary and our investment and property managers in navigating the ongoing volatility and safeguarding members' funds whilst generating a reasonable return on their investments.

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

Asset Class	2020	2019
	%	%
Property	8.2	8.5
British Government and Local Authority	27.0	26.0
Stocks		
UK and Overseas Equities	18.0	18.0
Unit Trusts and Investment Trusts	15.2	13.8
UK and Overseas Fixed Interest Securities	29.4	30.9
Loans secured by mortgages	0.1	0.1
Other Loans	2.1	2.7
Total	100	100

Net Operating Expenses

Keeping the costs of running the Society to a minimum while delivering a first-class service to our members remains a key priority. Acquisition costs decreased to £128,722 compared to £187,506 in 2019. This reduction is partly attributable to a reduction in the volume of new business commission paid to Area Representatives due to lockdown. In addition, there was a significant reduction in expenditure on the website and digital marketing.

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Administrative expenses increased to £965,270 compared to £841,729 in 2019. However, this includes exceptional costs of £96,790 relating to the staffing restructure, which was implemented in September 2020, whilst the 2019 comparative included the reversal of a mortgage provision of £20,546. On a like for like basis, administrative expenses fell by £6,205.

Risk

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

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

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

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

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

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

Operational risk – this refers to potential loss arising from inadequate or failed internal processes, people, systems or external events. It also encompasses legal, information systems and regulatory risks. The Society's Chief Executive and Finance Manager have a responsibility to understand how operational risks can impact all areas of the business and to put in place measures to mitigate these risks. It also applies to weaknesses, both perceived or real, in the business model and the effectiveness of the distribution channels. Given that the Society has stable systems that it has operated for many years, this is considered to be a low risk.

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

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actuarial input to quantify capital requirements. The Society performs stress tests and has detailed plans in place to deal with any unexpected adverse market movements.

Staff Changes

2020 saw a significant change within the leadership of the Society as Victoria Herbert stepped down as General Manager in September. Victoria joined the Society as an office clerk in 1987 and worked her way up to become Head Office Manager before promotion to General Manager. Over more than 33 years, Victoria served the Society with great distinction and worked tirelessly to look after the interests of the membership, develop the business and to ensure that the Society remained true to its founding principles. Around the same time in early September 2020, Louis Herbert, who worked in the Membership Team, also left the business. The Management Committee wishes to record its thanks and appreciation for the outstanding contribution that both Victoria and Louis made to the Society over many years.

Future Developments

An ability to adapt to market conditions and changing customer expectations is vital for survival and growth, but this does not mean a change of ethos or belief. The solid platform we have established over a number of years is important to our members and we shall continue to work to expand our Depot Introducer network and increase the number of Area Representatives.

The new distribution channels that were developed towards the end of 2019 brought in encouraging levels of new business in 2020 and this has so far continued into 2021. We will work to expand our product range and enhance our systems to improve the efficiency of our service to members. We are confident of being able to deliver our growth plans without placing undue pressure on our capital resources. The strategy will continue to be to grow the business organically at a controlled, manageable rate.

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

Approved by the Management Committee on 31 March 2021 and signed on its behalf.



J W Goolamier
Chair

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CORPORATE GOVERNANCE REPORT

REPORT ON CORPORATE GOVERNANCE

The Society is committed to adopting best practice in Corporate Governance. As a member of the Association of Financial Mutuals (AFM) it uses the AFM's Corporate Governance Code to demonstrate this. The Code comprises six Principles:

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

The Management Committee confirms that the Society has applied the AFM Code throughout the year ended 31 December 2020.

The Principles of the AFM Code are not designed to override or be intended to interpret directors' duties as set out in the Companies Act 2006; rather to support directors in meeting the requirements in section 172 of the Companies Act which applies to all directors regardless of ownership or size of organisation. The Principles themselves are designed to provide a tool to help the Society to raise its corporate governance standards to a higher level and help improve engagement with stakeholders.

This report sets out how the Principles of the Code have been adopted by the Society during 2020.

PRINCIPLE ONE: PURPOSE AND LEADERSHIP

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

Purpose

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

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

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

Values and Culture

The Society is committed to the mutual model of doing business. The Society's values and culture place members at the heart of everything we do. The Management Committee firmly believes that this culture is critical to the Society's competitive advantage and the creation and protection of long-term value. It

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CORPORATE GOVERNANCE REPORT

ensures that the culture and values are demonstrated throughout the Society, including by staff, Area Representatives and Depot Introducers.

A healthy culture is critical to the success of any business, especially for a friendly society. The Management Committee monitors indicators of a healthy culture throughout the year including feedback from members. The very positive feedback that the Society receives from its members reflects the loyalty, professionalism and dedication of our staff.

Strategy

The overall aims of the Society are to:

- meet its contractual obligations to members,
- add value to its members through competitive products that meet their needs,
- maintain a strong financial position to protect members from changes in investment conditions,
- provide first-class customer service.

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

PRINCIPLE TWO: BOARD COMPOSITION

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

Balance and Diversity

The function of the Management Committee is to oversee the business of the Society in accordance with its Rules, statute and regulatory requirements.

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

As the membership of the Society is largely based on a specific industry occupation, this is reflected in the composition of the Management Committee with the majority of Non-Executive Directors being male. There is one female Director, who is an actuary. The Management Committee has adopted a Diversity Policy and recognises that greater diversity in gender and ethnic background would benefit the Society. However, competence relevant to the needs of the business remains the overriding criterion for appointment.

Size and Structure

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

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policy with the Society. The size of the Committee is determined by the Society's Rules and is currently within the range of a minimum of 6 and a maximum of 12.

Members co-opted to the Management Committee are required to put themselves forward for election at the Annual General Meeting following their co-option. Appointments, initially for a three-year period, are based on objective criteria and aimed at providing the overall balance of skills and experience necessary for an effective Committee. Each Non-Executive Director is required to seek re-election at regular intervals and at least once every three years.

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

Independence

The Management Committee considers that its Non-Executive Directors are independent. There are two Non-Executive Directors who have served for terms of nine years or more; in all cases it is considered that this has not adversely influenced their judgement, integrity or independence of mind. The specific railway industry experience and knowledge acquired by each of them are believed to enhance the contribution they are able to make to the Society and to the membership. The nature and scale of the Society's operations are such that the loss of such experience would be to the detriment of the membership. It is intended that over the next few years the Management Committee will move to a position where Non-Executive Directors will not normally have served for more than 9 years.

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

Succession Planning

The Management Committee considers succession planning on a regular basis and there is a succession plan in place. Andrew Townsley was appointed as Chair of the Audit and Risk Management sub-Committee on 12 October 2020, following the granting of regulatory approval for the SMF 11 role. Terry Brushfield-Hodges was appointed as a member of the With-Profits Advisory Arrangement on 17 November 2020, following the resignation of Alan Edwards at the end of August.

Effectiveness

The Management Committee undertakes regular evaluations of its performance as a Committee. The results of this exercise help to inform the training requirements of Committee members and skills gaps that need to be addressed through succession planning. The Management Committee had intended to arrange an externally-facilitated evaluation exercise during 2020; however this was postponed due to the COVID-19 pandemic.

Members of the Management Committee participate in training which is designed to address, amongst other issues, regulatory developments, product awareness, money laundering, data protection, corporate governance and Society specific matters. Members of the Management Committee are able to attend events organised through the Association of Financial Mutuals, as deemed appropriate to their training needs and Committee responsibilities. Additionally, presentations made by the Society's Actuary and by the Fund Managers are designed to further enhance Committee skills. The Society also participates in the Association of Financial Mutuals online training program, which is provided by Skillcast.

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

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Chair

The Chair is responsible for the leadership of the Management Committee, the conduct of its meetings and for ensuring that it acts effectively in the discharge of its duties. The Chair is responsible for creating a culture of mutual respect and openness so that all Committee members are able to make an effective contribution. Ethical leadership and the promotion of the highest standards of integrity, probity and governance are key duties of the Chair.

The Chair is Non-Executive and there is a clear division of responsibilities between the Chair leading the Management Committee and the Chief Executive being responsible for running the Society's business.

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

Senior Independent Director

The Management Committee has appointed one of the independent Non-Executive Directors as a Senior Independent Director. One aspect of this role, in line with the requirements of the Code, is to provide members with a point of contact other than the Chair or Chief Executive. Members having concerns about the Society's business are encouraged to write to the Senior Independent Director, care of the Society's head office. The correspondence will be passed unopened to him.

Combination of Society Secretary and Chief Executive Roles

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

Society Secretary

Members of the Management Committee have access to the Society Secretary who is responsible for ensuring that the Committee follows proper corporate governance processes. Independent external professional advice is also available to all Committee members, at the Society's expense, where it is deemed to be appropriate in the discharge of their duties and responsibilities as Committee members. The Secretary is responsible for advising the Chair and the Management Committee on all governance matters, ensuring that meetings are properly minuted, procedures are followed and that there is a good flow of information.

Chief Executive

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

PRINCIPLE THREE: DIRECTOR RESPONSIBILITIES

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

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CORPORATE GOVERNANCE REPORT

Accountability

Good governance ensures that the Society has the right safeguards in place and enables every decision it takes to be underpinned by relevant considerations. The Society's Corporate Control Manual and governance maps provide clear lines of accountability and responsibility. The Society's Rules include matters relating to the authority, role and conduct of Management Committee members and the principal rights and responsibilities of members of the Society.

The Society operates under the direction of the Management Committee, with day-to-day operational responsibility for the business delegated to the Chief Executive. The strategic direction of the Society, performance against annual and long-term plans and targets, monitoring of the business and reviewing the Terms of Reference of sub-committees remain within the remit of the Management Committee. The Management Committee has ultimate responsibility for ensuring that the Society is run efficiently for the benefit of its members and that all its members are treated fairly.

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

- Declaration of bonus rates
- Approval of the Annual Report and Financial Statements
- Approval of the Own Risk and Solvency Assessment
- Remuneration
- Appointment and dismissal of the Chief Executive
- Approval of the Business Plan and budgets
- Acquisition / disposal of significant assets

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

Members of Management Committee

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

Joe Goolamier	Joe joined the Management Committee in 2002 and currently serves as Chair. He is retired from his role as Duty Resources Manager with WAGN operating at Kings Cross. Joe holds the full FPC qualification and previously chaired the Audit & Risk Management sub-Committee. He stood down from this role when he was elected as Chair of the Society in June 2013.
Joe McKenna	Joe joined the Management Committee in 2006. He serves as Chair of the With-Profits Advisory Arrangement and as a member of the Audit and Risk Management sub-Committee. He also served as Deputy Chair of the Management Committee throughout the year, stepping down from that role on 31 December 2020. A driver with Cross Country Trains operating out of Manchester, Joe is a law graduate and a qualified solicitor. He is also a Director of Chimney Pot Park Management Company Limited.
Marc Bicknell	Marc joined the Management Committee in 2017 following the granting of regulatory approval for his appointment as Chief Executive. Marc, a graduate and Chartered Accountant, has substantial management and Board level experience, including non-executive experience within the friendly society

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sector. In October 2018, he was appointed to the Board of Directors of the Association of Financial Mutuals. He also serves as a Non-Executive Director with Central England Co-operative Society Limited.

- Terry Brushfield-Hodges** Terry rejoined the Management Committee in 2014, having served previously between 2006 and 2010. Terry has served as a member of the With-Profits Advisory Arrangement since 17 November 2020. He is a retired financial adviser and served for many years as a Superintendent with Provident Mutual where he was closely involved with the British Rail Pension Schemes and the BRASS AVC Scheme. Since retiring, he has undertaken retail compliance work with the Society.
- Moira Casey** Moira joined the Management Committee in 2016 and is a member of the With-Profits Advisory Arrangement and the Audit and Risk Management sub-Committee. She also served as Chair of the Audit and Risk Management sub-Committee until 12 October 2020. Moira is a qualified Actuary and brings substantial experience of life and pensions office operations and Solvency II project work to the Society. She is employed as a consultant actuary by OAC plc.
- Lee Davies** Lee joined the Management Committee in 2013. Lee has served as the Society's Senior Independent Director since 1 August 2019 and is also a member of the With-Profits Advisory Arrangement. He is qualified to FPC 1 level and is a driver with Cross Country Trains operating out of Newcastle. He has also previously served as a school governor.
- Alan Edwards** Alan joined the Management Committee in 2004 and had also served on the With-Profits Advisory Arrangement until his resignation from the Committee on 31 August 2020. The Management Committee thanks Alan for his long-standing contribution to the Society as a Management Committee member. We are pleased that Alan is continuing to support the Society in his Depot Introducer role.
- David Storrie** David joined the Management Committee in 2017 and serves on the Audit and Risk Management sub-Committee. An operational driver trainer with Arriva Rail North based at Leeds, David has also previously served as a national list football assistant referee.
- Andrew Townsley** Andrew joined the Management Committee in April 2019 and has served as Chair of the Audit and Risk Management sub-Committee since 12 October 2020, following the granting of regulatory approval. Andrew has over 40 years' experience in the financial services industry, most of which have been spent in the mutual sector. In 2016 he retired as Chief Executive of Kingston Unity Friendly Society Limited. During his career he also served as Chief Executive of Sheffield Mutual Friendly Society, Deputy Chief Executive of Vernon Building Society and General Manager of Barnsley Building Society. He was also previously involved in the mutual sector's trade body as a Non-Executive Director of the Association of Financial Mutuals (AFM) and Association of Friendly Societies (AFS) and served as Chair of the AFS in 2007/08.

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Senior Management

Chief Executive & Secretary:

Marc Bicknell Appointed 2017. Chartered Accountant and graduate.

Finance Manager:

Lynsey Inglis Appointed 2012. Chartered Accountant and Finance graduate.

Attendance at Meetings

Individual attendances at meetings during the year were as follows:

	Management Committee	Audit & Risk Management sub-Committee	With-Profits Advisory Arrangement
J W Goolamier	7/7	n/a	n/a
J McKenna	7/7	4/4	3/3
M A Bicknell *	7/7	4/4	3/3
R T Brushfield-Hodges	6/7	n/a	1/1
M A Casey	7/7	4/4	3/3
L P Davies	7/7	n/a	3/3
A Edwards	0/5	n/a	0/2
D I Storrie	7/7	3/4	n/a
R A J Townsley	7/7	4/4	n/a

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

Audit & Risk Management sub-Committee

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

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

The Audit & Risk Management sub-Committee met four times during the year. The sub-Committee has unfettered access to both the internal and external auditors and, equally, the audit firms have open access to the sub-Committee and to the Management Committee as deemed appropriate.

In addition to monitoring the external audit from the outset of the planning stage the sub-Committee also considers the significant findings and recommendations arising from the audit of the Society's Annual Report and Financial Statements.

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It is considered that the members of the sub-Committee possess the necessary mix of skills and knowledge of the Society that enables them to exercise appropriate judgements and bring challenge and debate to issues as appropriate. The Terms of Reference of the Audit & Risk Management sub-Committee are available on the Society's website.

With-Profits Advisory Arrangement

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

The main responsibilities of the WPAA are:

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

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

Remuneration Committee

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

Nominations Committee

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

PRINCIPLE FOUR: OPPORTUNITY AND RISK

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

Opportunity

Through clear definition of the Society's purpose and values, the Management Committee's decisions are focused on promoting and delivering long-term value for the membership. This is achieved through

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maintaining an appropriate level of Own Funds and sharing the Society's surpluses with the membership through the addition of reversionary and final bonuses to their policies.

Risk

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

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

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

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

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

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

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

Responsibilities

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

The Society has adopted Three Lines of Defence principles in its risk management framework. The First Line of Defence is the management activity, checking and validation carried out in accordance with established policies and procedures. The Chief Executive is responsible for the First Line of Defence. The Second Line of Defence is the Risk Management function, which seeks to ensure conformity with risk, actuarial and compliance policies and procedures. The Finance Manager, as Chief Risk Officer, is responsible for the Second Line of Defence and maintains the Key Risk Summary. The Third Line of Defence is the Internal Audit function, which provides an independent, objective and critical assessment of the design and effectiveness of the Society's internal control, risk management and governance arrangements. The Chair of the Audit and Risk Management sub-Committee has regulatory responsibility for ensuring the effectiveness and independence of Internal Audit. An independent firm of Chartered Accountants is engaged in providing Internal Audit services to the Society. Their programme of work is

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agreed in advance with the Audit and Risk Management sub-Committee to which they report their findings.

Internal Control

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

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

PRINCIPLE FIVE: REMUNERATION

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

Remuneration Policy

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

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

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

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

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

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

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CORPORATE GOVERNANCE REPORT

PRINCIPLE SIX: STAKEHOLDER RELATIONSHIPS AND ENGAGEMENT

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

General

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

Members

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

The Society is keenly focused on the concept of Treating Customers Fairly and remains committed to dealing with its members fairly and appropriately. The Society firmly believes that all customers, including those in vulnerable circumstances, should receive fair treatment from financial services providers. The Society operates in accordance with its Vulnerable Customers Policy.

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

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

Employees

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

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

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Suppliers

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

The key areas where functions are currently outsourced are:

- Internal Audit
- Actuarial Functions
- Investment Fund Management
- Investment Property Management

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

Community

We are proud of the railway community in which we operate and maintain good relationships with the train operating companies and with the drivers' trade union, ASLEF. The Society is also proud of its association with the Railway Employees and Public Transport Association (REPTA).

Approved by the Management Committee on 31 March 2021 and signed on its behalf



J W Goolamier
Chair

Railway Enginemen's Assurance Society Limited

REMUNERATION REPORT

REMUNERATION REPORT

Management Committee membership brings with it a full-time responsibility. It requires the individuals to undertake research and training in order to ensure compliance with regulatory standards and to maintain the skills and experience necessary for safeguarding the interests of the Society's members. The remuneration of Management Committee members and the Society's staff is determined annually by the Committee and is subject to the approval of the Committee as a whole. Non-Executive Directors on the Management Committee are provided with a daily allowance for attending Committee meetings. In addition, they are paid an annual retainer fee. Travel and subsistence expenses are also paid where appropriate.

The daily allowance for 2020 was £314. The annual retainer fees for 2020 were as follows: Chair: £9,410; Non-Executive Professional Directors: £6,273; Non-Executive Member Directors: £3,137. Additional annual fees of £1,046 were paid to the Chair of the Audit and Risk Management sub-Committee, the Chair of the With-Profits Advisory Arrangement and the Senior Independent Director. An additional annual fee of £510 was paid to the Deputy Chair.

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

Fees, allowances, introducer payments, salary, benefits and pension costs for 2020 were as follows:

	Fees and allowances £	Introducer Payments £	Salary £	Benefits £	Pension cost £	Total 2020 £
J W Goolamier	11,451	-	-	-	-	11,451
J McKenna	6,577	-	-	-	-	6,577
R T Brushfield-Hodges	4,742	-	-	-	-	4,742
M A Casey	8,972	-	-	-	-	8,972
L P Davies	6,198	925	-	-	-	7,123
A Edwards*	2,792	658	-	-	-	3,450
D I Storrie	5,021	400	-	-	-	5,421
R A J Townsley	8,388	-	-	-	-	8,388
M A Bicknell	-	-	129,217	-	21,046	150,263
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	54,141	1,983	129,217	-	21,046	206,387
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

* Mr A Edwards resigned from the Management Committee on 31 August 2020.

Railway Enginemens' Assurance Society Limited

REMUNERATION REPORT

Fees, allowances, introducer payments, salary, benefits and pension costs for 2019 were as follows:

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

Some members of the Management Committee are also Depot Introducers for the Society and receive a payment for each policy introduced by them. It is considered that the relatively small value of these payments does not impact the independence of the individual Committee members.

Terry Brushfield-Hodges undertakes retail sales compliance consultancy for the Society. In 2020 the total paid in respect of these services amounted to £1,339 (2019: £5,870). It is considered that provision of these services does not impact either his independence or judgement as a Management Committee member.

A separate resolution to accept this Remuneration Report will be put to the Society's members at the 2021 Annual General Meeting.

Approved by the Management Committee on 31 March 2021 and signed on its behalf.



J W Goolamier
Chair

Railway Enginemen's Assurance Society Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
THE RAILWAY ENGINEMEN'S ASSURANCE SOCIETY LIMITED
YEAR ENDED 31 DECEMBER 2020

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

We have audited the financial statements of the Railway Enginemen's Assurance Society Limited for the year ended 31 December 2020, which comprise the Statement of Comprehensive Income, the Statement of Financial Position and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and Financial Reporting Standard FRS 102 and 103.

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2020 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Management Committee use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Management Committee's assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- Reviewing budget financial information for the financial year ended 31 December 2021, and including up to date post year end management accounts
- Reviewing the Society's 5-year business plan 2020 -2025
- Reviewing the Own Risk and Solvency Assessment and Forward-Looking Assessment of Solvency reports
- Reviewing board and subcommittee minutes
- Discussions with our Reviewing Actuary on the appropriateness of assumptions and potential sensitivities in the Technical Provision and Solvency Capital Requirement calculations
- Discussions with management and the board on such matters and post balance sheet events which may impact the going concern status
- Consideration of post year end movements in equity markets and bond yields to assess the need to reconsider the need for updated Solvency Capital Requirement calculations

From the work undertaken, we noted that the Society's solvency position at the year end was in excess of 200% and well above the risk thresholds management has set to initiate a responsive action. The Society is also projected to remain solvent over the 5-year business planning period, taking into account several potential downside scenarios. However, like many other societies, the Society's solvency position is sensitive to movements in the risk-free rates and changes in the investment market which are largely outside their control.

Railway Enginemen's Assurance Society Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
THE RAILWAY ENGINEMEN'S ASSURANCE SOCIETY LIMITED - CONTINUED
YEAR ENDED 31 DECEMBER 2020

Conclusions relating to going concern - continued

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Management Committee with respect to going concern are described in the relevant sections of this report.

Our approach to the audit

The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risks of the Society when determining the level of work to be performed. All audit work was performed directly by the audit engagement team with the assistance of appointed external actuarial experts ('reviewing actuary').

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the Management Committee made subjective judgements, for example in respect of the valuation of the technical provisions which are subject to management judgement and estimation. We also updated our risk assessment for the impact of Covid-19 and focus our audit effort over the appropriateness of going concern and post balance sheet event disclosures.

Our application of materiality

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

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

When establishing our overall audit strategy, we determined an overall level of uncorrected misstatement that we judged would be material for the financial statements as a whole. We determined planning materiality for the Society to be £178,000 which is approximately 2% of the prior year Own Funds.

On the basis of our risk assessment, together with our assessment of the Society's overall control environment, our judgement is that the overall performance materiality level should be 70% of planning materiality, namely £124,600. We agreed with the Management Committee that we shall report to them misstatements in excess of £6,230 that we identify through the course of the audit, together with any qualitative matters that warrant reporting.

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

Railway Enginemen’s Assurance Society Limited

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF
THE RAILWAY ENGINEMEN’S ASSURANCE SOCIETY LIMITED - CONTINUED
YEAR ENDED 31 DECEMBER 2020

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter	Observation
<p>Valuation of Technical Provision</p> <p>As at 31 December 2020, the Society recognised long term business provisions (the ‘Technical Provision’) of £27.9m (2019: £26.7m) that were prepared in line with the Society’s accounting policy. Due to the size and nature of the Technical Provision, we consider these to be material to the financial statements.</p> <p>The Technical Provision is calculated using policy data held on the Society’s administration system and assumptions set using internal and external data as inputs to the actuarial valuation model.</p> <p>Through the selection of appropriate assumptions, the Management Committee are required to make significant judgements in conjunction with the advice of the Chief Actuary. These judgements involve considering whether the assumptions appropriately reflect the Society’s experience, circumstances and future expectations.</p>	<p>In assessing the valuation of the Technical Provision, we performed the following procedures:</p> <ul style="list-style-type: none"> • We engaged the services of a suitably qualified, independent and experienced actuary (‘Reviewing Actuary’) to review and report on the methodology and assumptions applied by the Management Committee in the calculation of the Technical Provision, and on the accuracy of the calculation itself. • We reviewed the reasonableness of the assumptions used in the calculation and considered the advice of our Reviewing Actuary as to whether those assumptions were reasonable and the impact they had on the calculation. • We substantively tested the integrity of the Society’s policy administration data to ensure the data being used by the Chief Actuary was accurate. The testing included sample checks on premium income streams, claims paid, data integrity checks on key fields and reconciliation of policy numbers. • One key component to the Technical Provision are the expense assumptions. We challenged the Management Committee’s assumptions in terms of future budgeted expenses and levels of projected new business, and compared previous budgets to actual results to assess the reliability of the Society’s budgeting process. We also reviewed post year end management information 	<p>Overall, based on the assumptions and methodology used at 31 December 2020, we consider the valuation of the Technical Provision recognised within the financial statements to be reasonable.</p>

Railway Enginemen’s Assurance Society Limited

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF
THE RAILWAY ENGINEMEN’S ASSURANCE SOCIETY LIMITED - CONTINUED
YEAR ENDED 31 DECEMBER 2020

Key audit matters - continued

Key audit matter	How our audit addressed the key audit matter	Observation
<p>Management override of controls</p> <p>Auditing Standards require us to communicate the fraud risk from management override of controls as significant.</p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively</p>	<p>In assessing the risk that accounting records and the financial statements are materially misstated through management overriding controls, we have performed the following procedures:</p> <ul style="list-style-type: none"> • Reviewed bank transactions throughout the year and since the year end for material and round sum amounts and evidenced these back to appropriate documentation and authorisation • Reviewed the completeness and reasonableness of accounting estimates (in conjunction with work performed on the Technical Provision noted earlier) • Using audit data analytical software, we ran a group of tests on the general ledger data to identify transactions of a higher risk nature to review and substantiate to appropriate evidence • Checked the consistency and appropriateness of accounting policies and disclosures in the financial statements 	<p>Overall, we are satisfied that the accounting records and financial statements are free from material misstatement in this respect.</p>
<p>Covid 19 and going concern</p> <p>Due to the continued unprecedented circumstances caused by Covid – 19, we considered going concern to represent a key risk to the audit.</p> <p>Management has concluded that the Society remains a going concern at the date of signing these financial statements. As at 31 December 2020, the Society had coverage of the Solvency Capital Requirement (SCR) of 217% and stress testing of the Solvency position in the Forward-Looking Assessment of Solvency results in the Society remaining able to meet its SCR prior to implementation of management actions.</p>	<p>In response to the additional risk presented by Covid 19 we have performed the following procedures:</p> <ul style="list-style-type: none"> • The Own Risk and Solvency Assessment (ORSA) and Forward-Looking Assessment of Solvency have been reviewed to check that the Society has considered appropriate stressed scenarios and that it will remain able to meet its regulatory capital requirements during the going concern review period • Our Reviewing Actuary reviewed the assumptions used in the revised calculations and provided comments on sensitivities inherent in the model • Reviewed up to date management information, budgets and business plans to assess if there was evidence of significant changes in behaviours and attitudes of members and rental tenants • Specific discussions with management about contingency planning measures and impact of social distancing requirements on the operations of the Society • Reviewed the reasonableness of additional disclosures made in the financial statements 	<p>Overall, we are satisfied that the Management Committee’s adoption of the going concern basis of preparation remains appropriate and additional disclosures are reasonable and appropriate.</p>

Railway Enginemen's Assurance Society Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
THE RAILWAY ENGINEMEN'S ASSURANCE SOCIETY LIMITED - CONTINUED
YEAR ENDED 31 DECEMBER 2020

Other Information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the Management Committee that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess the Society's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** - the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee

We have nothing to report in respect of these matters.

Opinion on other matters prescribed by the Friendly Societies Act 1992

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Management Committee report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Management Committee report have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Management Committee report.

Railway Enginemen's Assurance Society Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
THE RAILWAY ENGINEMEN'S ASSURANCE SOCIETY LIMITED - CONTINUED
YEAR ENDED 31 DECEMBER 2020

Matters on which we are required to report by exception

- Friendly Societies Act 1992:

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

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

Responsibilities of the Management Committee

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Railway Enginemen's Assurance Society Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
THE RAILWAY ENGINEMEN'S ASSURANCE SOCIETY LIMITED - CONTINUED
YEAR ENDED 31 DECEMBER 2020

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

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

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

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

- **Auditor tenure** - We were appointed by the Management Committee on 27 September 2017 and this is our fourth uninterrupted period of the audit engagement.
- **Non – audit services** - The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society and we remain independent of the Society in conducting our audit.
- **Consistency of the audit report with the additional report to the audit committee** – Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Use of our report

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



Paul Winwood (Senior Statutory Auditor)

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

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Railway Enginemen's Assurance Society Limited

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020

	<i>Notes</i>	2020	2019
		£	£
Technical Account - Long Term Business			
Income			
Earned premiums		4,446,708	4,424,534
Investment Income			
Unrealised gains on investments	3	640,093	1,167,322
		1,462,223	1,950,140
		2,102,316	3,117,462
Other Income		10,000	-
Total Income		6,559,024	7,541,996
Expenditure			
Claims incurred	4	4,343,248	4,186,945
Change in technical provisions	12	1,151,246	30,203
		5,494,494	4,217,148
Net Operating Expenses			
Acquisition costs		128,722	187,506
Administrative expenses	6	965,270	841,729
		1,093,992	1,029,235
Total Expenditure		6,588,486	5,246,383
(Deficit)/Excess of income over expenditure before taxation	5	(29,462)	2,295,613
Taxation	9	(125,766)	(89,799)
Transfer (from)/to own funds	12	(155,228)	2,205,814

All income and expenditure arises from continuing operations.

Railway Enginemen's Assurance Society Limited

STATEMENT OF FINANCIAL POSITION - ASSETS

31 December 2020

	<i>Notes</i>	2020	2019
		£	£
Investments	10		
Land and buildings		2,940,000	2,920,000
Other financial investments - long term fund:		32,975,987	31,253,258
		<hr/>	<hr/>
		35,915,987	34,173,258
Debtors			
Debtors from direct insurance operations - Members		138,015	249,418
Other debtors		62,137	61,441
		<hr/>	<hr/>
		200,152	310,859
Other assets			
Tangible assets	11	17,753	8,242
Cash at bank and in hand		800,085	1,260,884
		<hr/>	<hr/>
		817,838	1,269,126
Prepayments and accrued income			
Accrued interest		304,790	349,371
Other prepayments and accrued income		16,566	30,457
		<hr/>	<hr/>
		321,356	379,828
		<hr/>	<hr/>
TOTAL ASSETS		37,255,333	36,133,071
		<hr/> <hr/>	<hr/> <hr/>

Railway Enginemen's Assurance Society Limited

STATEMENT OF FINANCIAL POSITION - LIABILITIES

31 December 2020

	<i>Notes</i>	2020	2019
Own Funds	12	8,742,187	8,897,415
Technical provisions			
Technical provisions	12	27,914,142	26,762,896
Claims outstanding		158,081	170,718
		<hr/>	<hr/>
		28,072,223	26,933,614
Provision for other risks and charges			
Deferred taxation	9	207,788	85,021
Creditors			
Other creditors including taxation and social security	13	13,868	15,743
Accruals and deferred income		219,267	201,278
		<hr/>	<hr/>
TOTAL LIABILITIES		37,255,333	36,133,071
		<hr/> <hr/>	<hr/> <hr/>

Approved and authorised for issue by the Management Committee on 31 March 2021



J W Goolamier - Chairman



M A Casey – Deputy Chair



M A Bicknell - Chief Executive & Secretary

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

As permitted by FRS 103 on Insurance Contracts, the Society has applied accounting practices for insurance contracts as disclosed in Note 12.

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

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

Going Concern

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

Earned Premiums

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

Investment Income

Investment income includes dividends, interest, gains and losses on the realisation of investments, and rents. Dividends are included as investment income on receipt and are grossed up for applicable tax credits. Fixed interest income, rents and bank deposit interest are accounted for on an accruals basis. Income received in foreign currencies is translated at the rates ruling at the date of the transaction.

Realised and Unrealised Gains and Losses on Investments

Realised gains and losses are calculated as the difference between net sale proceeds and the valuation at the previous statement of financial position date or their purchase price, if acquired during the year.

Unrealised gains and losses represent the net difference between the valuation of the investments at the year end, and their valuation at the previous statement of financial position date or their purchase price, if acquired during the year.

Claims

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

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

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

Bonuses

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

Acquisition Costs

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

Pension Contributions

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

Taxation

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

Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the statement of financial position date. Timing differences are differences between the Society's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in the tax assessments in periods different from those which they are recognised in the financial statements.

Deferred tax assets are recognised to the extent that they are recoverable. They are considered to be recoverable if it is more likely than not that there will be suitable taxable profits from which the future reversal of timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Investment Property

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

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

Other Financial Investments

Quoted fixed interest and equity investments are valued at the closing year end mid-market values.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

Loans secured by mortgages are stated at capital advanced less amounts repaid and provision for any potential losses.

Other loans, comprising policy loans, are stated at capital advanced less provision for any potential losses.

Tangible Assets

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

Fixtures, fittings and equipment 5 years

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

Long Term Insurance Liabilities

The Society's technical provisions are valued on a Solvency II basis, comprising the best estimate of liabilities plus the risk margin.

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

The technical provisions in the financial statements reflect the results of the valuation. The best estimate method makes sufficient provisions for all future cash flows including claim payments, expenses and premiums due. The risk margin element is intended to be the balance that another insurer would require in addition to the best estimate to take on all of the liabilities at the valuation date.

Cash Flow Statement

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

Foreign Currencies

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

Own Funds

The own funds represent the excess of assets over and above the long-term insurance contract liabilities and other liabilities. The own fund is the surplus accumulated that has not yet been allocated to policies. It forms the working capital of the Society and is available to meet risk and capital requirements, as well as any uncertain additional liabilities that may arise. Any surplus or deficit for the year arising through the statement of comprehensive income is transferred to or from own funds.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates,

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

Technical Provisions

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

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

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

Fair Value of Financial Assets

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

2. CAPITAL AND RISK MANAGEMENT

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

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

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

Measurement and Monitoring of Capital

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

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

Fund Valuation

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

Railway Enginemens' Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

3	INVESTMENT INCOME	2020	2019
		£	£
	Income from investments:		
	Listed	701,920	782,282
	Land and buildings	203,397	203,899
	Mortgage interest	1,794	5,987
	Other interest receivable	50,125	54,151
		<hr/>	<hr/>
		957,236	1,046,319
	Net (losses)/gains on realisation of investments	(317,143)	121,003
		<hr/>	<hr/>
		640,093	1,167,322
		<hr/> <hr/>	<hr/> <hr/>
4	CLAIMS INCURRED	2020	2019
		£	£
	Expenditure for the year comprises:		
	Claims for benefit:		
	Retired members (aged 65)	92,005	54,416
	(aged 60)	157,197	185,544
	Disabled members	59,817	101,227
	Deceased members	75,342	108,068
	Endowments	3,255,927	2,667,910
	Surrenders	702,960	1,069,780
		<hr/>	<hr/>
		4,343,248	4,186,945
		<hr/> <hr/>	<hr/> <hr/>
5	(DEFICIT)/EXCESS OF INCOME OVER EXPENDITURE BEFORE TAXATION	2020	2019
		£	£
	Deficit of income over expenditure before taxation is stated after charging:		
	Depreciation	4,843	2,084
	Property management charges	18,604	17,310
	Fund management charges	102,625	101,725
	Auditor's remuneration:		
	Audit services – BHP	48,840	45,840
	Actuary's remuneration	129,292	92,070
		<hr/> <hr/>	<hr/> <hr/>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

6	ADMINISTRATIVE EXPENSES	2020	2019
		£	£
	Staff costs	461,793	374,481
	Premium collection services	41,969	41,194
	Committee fees and expenses	54,912	67,669
	General office expenses	80,130	67,903
	Professional fees	326,466	290,482
		<u>965,270</u>	<u>841,729</u>
7	EMPLOYEES	2020	2019
		No.	No.
	The average monthly number of persons employed by the Society during the year was:		
	Administration	6	6
	Acquisition	1	1
		<u>7</u>	<u>7</u>
		2020	2019
		£	£
	Staff costs for above persons:		
	Wages and salaries	343,456	358,984
	Social security costs	37,963	38,248
	Pension costs	61,478	58,470
	Other costs - exceptional	96,790	-
		<u>539,687</u>	<u>455,702</u>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

8 CHIEF EXECUTIVE AND COMMITTEE MEMBERS

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

	2020	2019
	£	£
Emoluments paid to members during the year:		
Fees and allowances	54,912	59,375
Salaries and benefits in kind	129,217	127,064
Pension costs	21,046	20,633
	<u>205,175</u>	<u>207,072</u>

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

	2020	2019
	No	No
Not more than £5,000	2	1
More than £5,000 but not more than £10,000	5	5
More than £10,000 but not more than £15,000	1	2
More than £125,000 but not more than £130,000	1	1
	<u>9</u>	<u>9</u>

	2020	2019
	£	£
Chairman:		
Emoluments J W Goolamier	11,451	12,026
	<u>11,451</u>	<u>12,026</u>

	2020	2019
	£	£
The highest paid member:		
Remuneration	129,217	127,064
Emoluments	<u>129,217</u>	<u>127,064</u>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

9 TAXATION	2020	2019		
	£	£		
Current tax:				
UK Corporation tax on profits of the period	-	-		
Irrecoverable tax on franked investment income	2,999	4,778		
Adjustment in respect of previous periods	-	-		
	<u>2,999</u>	<u>4,778</u>		
Total current tax	2,999	4,778		
Deferred tax:				
Origination and reversal of timing differences				
current year	122,767	85,021		
prior year	-	-		
	<u>122,767</u>	<u>85,021</u>		
Total deferred tax	122,767	85,021		
Tax on surplus on ordinary activities	<u>125,766</u>	<u>89,799</u>		
	2020	2019		
	£	£		
DEFERRED TAX:				
Movement in deferred tax for the period:				
At 1 January	85,021	-		
Charge to statement of comprehensive income	122,767	85,021		
	<u>207,788</u>	<u>85,021</u>		
At 31 December	<u>207,788</u>	<u>85,021</u>		
The deferred tax liability comprises:				
	Provided	Unprovided		
	2020	2019		
	2020	2019		
	£	£		
	£	£		
Accelerated capital allowances and other short term timing differences	2,587	1,201	-	-
Unrealised gain/(loss) on investments	121,103	50,976	-	-
Revaluation of investments	252,326	216,409	-	-
Capital losses	(39,495)	(33,530)	-	-
Excess management expenses	(128,733)	(150,035)	-	-
	<u>207,788</u>	<u>85,021</u>	<u>-</u>	<u>-</u>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

10 INVESTMENTS	2020	2019
	£	£
Freehold land and buildings		
Investment property	2,620,000	2,600,000
Office property	320,000	320,000
	<u>2,940,000</u>	<u>2,920,000</u>

The Society's investment properties were professionally valued at 31 December 2020 by Walker Singleton, Chartered Surveyors, on an open market basis.

The Society occupied property, was professionally valued by Plant Bolton Gough, Chartered Surveyors, at 31 December 2020 on an open market basis.

Other financial investments:

	Current value		Historical cost	
	2020	2019	2020	2019
	£	£	£	£
Listed:				
British Government and Local Authority stocks	9,707,501	8,866,504	9,141,272	8,698,612
UK and Overseas Equities	6,451,902	6,163,347	4,462,735	4,487,244
Unit and Investment Trusts	5,474,573	4,705,355	4,278,890	3,799,827
UK and Overseas Fixed Interest Securities	10,539,604	10,573,190	10,317,067	10,425,806
	<u>32,173,580</u>	<u>30,308,396</u>	<u>28,199,964</u>	<u>27,411,489</u>
Unlisted:				
Loans secured by mortgages	34,538	36,584	34,538	36,584
Other loans	767,869	908,278	767,869	908,278
	<u>32,975,987</u>	<u>31,253,258</u>	<u>29,002,371</u>	<u>28,356,351</u>

All listed investments are listed on a recognised investment exchange.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

11	TANGIBLE FIXED ASSETS	Fixtures, fittings and equipment £
	Cost	
	1 January 2020	103,410
	Additions	14,354
	Disposals	(6,771)
		<hr/>
	31 December 2020	110,993
		<hr/>
	Depreciation	
	1 January 2020	95,168
	Charge for the year	4,843
	Eliminated on disposals	(6,771)
		<hr/>
	31 December 2020	93,240
		<hr/>
	Net book value	
	31 December 2020	17,753
		<hr/> <hr/>
	31 December 2019	8,242
		<hr/> <hr/>

12 RESERVES AND TECHNICAL PROVISIONS

	Own Funds £	Technical Provisions £
1 January 2020	8,897,415	26,762,896
Transfer from technical account	(155,228)	1,151,246
	<hr/>	<hr/>
31 December 2020	8,742,187	27,914,142
	<hr/> <hr/>	<hr/> <hr/>

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

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

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

13	CREDITORS	2020	2019
		£	£
	Payable within 12 months otherwise than by instalments:		
	Other creditors including taxation and social security	13,868	15,743
		<u> </u>	<u> </u>

14 PENSION CONTRIBUTIONS

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

The pension charge for the year amounted to £50,811 (2019: £49,114).

15 APPOINTED CHIEF ACTUARY AND WITH-PROFITS ACTUARY AND REMUNERATION

The appointed Chief Actuary and With-Profits Actuary of the Society is Mrs A E Carr, an Actuary with Steve Dixon Associates LLP. The Society has requested her to provide certain particulars requested in Section 77 of the Friendly Societies Act 1992. She has confirmed she is not a member of the Society, and that neither she nor her family, nor any of her partners, nor any corporate body of which she is a director or is controlled by her, has any financial or pecuniary interests in the Society, other than fees paid to Steve Dixon Associates LLP for actuarial services, which in 2020 totalled £129,292 (2019: £92,070).

16 TRANSACTIONS WITH COMMITTEE MEMBERS, OFFICERS AND THEIR CLOSE FAMILY MEMBERS

The following transactions have been undertaken as part of the normal business of the Society. These transactions were originally made on the same terms and conditions as applicable to other members of the Society, or on commercial terms.

	2020		2019	
	Number of persons	Amount £	Number of persons	Amount £
Life assurance policies:				
Premiums paid during the year	11	24,818	11	28,035
Total sum assured as at 31 December	9	240,827	11	343,323

Commission of £1,983 (2019: £4,368) 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 25.

During the year R T Brushfield-Hodges was paid £1,339 (2019: £5,870) 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 2020

17 FRS 103 LONG TERM INSURANCE CONTRACTS

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

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

Assumptions

The key assumptions are as follows:

Valuation Basis Summary	31 December 2020	31 December 2019	Process for setting assumptions
Methodology	Best estimate and risk margin	Best estimate and risk margin	The method is prescribed by the regulations.
Allowance for expenses	16.1% of gross premiums	16.3% of gross premiums	The allowance for expenses is based on the assumed maintenance expenses as a percentage of earned premiums. This is to ensure that the projected expenses in the cashflows used to calculate the technical provisions are sufficient on average over the average duration of six years to cover the projected budget expenses. The investment management expenses are assumed to be a percentage of policy reserve explicitly allowed for in the model. Acquisition expenses are assumed to be absorbed by new business, so no assumptions are included for acquisition expenses.
Investment management fees	0.334% of policy reserves	0.334% of policy reserves	
Allowance for future bonus Reversionary bonus rates:			The actuarial valuation has assumed that future reversionary bonuses will be set to ensure that they are sustainable, with future returns equal to the risk-free rate. In practice, we expect higher returns than risk-free rates and would aim to reward policyholders through both reversionary and final bonuses where appropriate.
Post 31 December 2017 inceptions	0.75%	0.75%	
Post-1984 to 31 December 2017 inceptions	0.50%	0.50%	
Pre-1984 inceptions	1.0%	1.0%	
	and reducing thereafter	and reducing thereafter	Final bonus rates are set to equal current rates until end May 2021, revised rates until May 2022 and zero thereafter.

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

17 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

Valuation Basis Summary	31 December 2020	31 December 2019	Process for setting assumptions
<p>Mortality</p> <p>Aged 17 and over</p> <p>Under age 17</p>	<p>55% AMC00/AFC00 ultimate</p> <p>30% ELT15</p>	<p>40% AMC00/AFC00 ultimate</p> <p>25% ELT15</p>	<p>The mortality assumptions are based on the Society's average experience over the previous five years, unless the data shows trends that suggest this is not appropriate. The reported but not yet paid deaths have been considered in setting the assumption. A mortality loading has been applied for the next 12 months of projections due to Covid-19, resulting in an additional reserve of £2k held.</p> <p>AMC00 is generated by the actuarial profession based on experience of UK insured lives during 1999-2002. ELT15 is based on the mortality experience of the population of England and Wales during 1990-92.</p>
<p>Morbidity</p>	<p>40% of the rates derived from the Society's past disability experience</p>	<p>40% of the rates derived from the Society's past disability experience</p>	<p>The morbidity assumptions are based on the Society's average experience over the previous five years, unless the data shows trends that suggest this is not appropriate.</p>
<p>Tax</p> <p>Taxable policies</p> <p>Tax exempt Policies</p>	<p>0%</p> <p>0%</p>	<p>0%</p> <p>0%</p>	<p>Based on the Society's experience.</p>

Railway Enginemens Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

17 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

Lapses

The lapse assumptions are set by carrying out a generalised linear model analysis, which identifies whether a factor has a statistically significant impact on the results, using data from the last five years of experience. Once the significant factors have been identified, the lapse rates are set based on the experience. However the Society has seen lower lapses in 2020, which is believed to be due to Covid-19, so the 2020 experience is unlikely to be an appropriate indicator of future experience. The recommended lapse rates are therefore the same as at 31 December 2019.

2020 Lapse Rate Table

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

2019 Lapse Rate Table

Duration in Force	Age		
	0-14, 40+	20-29	30-39
Less than 1	2.25%	3.25%	2.25%
1-2	10.25%	19.00%	13.50%
3	7.00%	13.00%	9.25%
4-8	5.50%	11.50%	8.25%
9-14	3.00%	10.00%	7.00%
15-19	2.25%	5.50%	4.00%
20+	3.25%	3.75%	2.75%

Risk Management and Control

A key part of the Society's risk management strategy is its system of internal controls. The Management Committee has overall responsibility for the Society's systems of internal control and for reviewing their effectiveness. Their implementation and maintenance is the responsibility of the Chief Executive and Finance Manager. 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 2020

17 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

The Society has a Risk Appetite Statement, a Key Risk Summary (which is reviewed at least quarterly) and an assessment of the capital required to cover the risks. The Society has a target level of capital greater than that required to cover capital requirements, with the aim of ensuring that the Society can still meet its liabilities and capital requirements in a wide range of future circumstances.

Solvency Capital Requirement (SCR)

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

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

Market Risk

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

Interest rate

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

Equity

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

Property

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

Spread

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

Currency

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

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

17 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

Concentration

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

Correlation

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

Counterparty Risk

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

Life Underwriting Risk

The life underwriting risk considers the risk arising from the underwriting of the Societies policies. For each risk, the stress is considered only for those policies where this increases the technical provisions.

The particular risks to be considered are listed below:

Lapse

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

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

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

Mortality

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

Longevity

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

Morbidity

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

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

17 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

Expense

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

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

Life Catastrophe

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

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

Correlation

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

Operational Risk

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

Summary

The total assets in excess of capital requirements:

	2020	2019
	£'000	£'000
Market value of assets	37,255	36,133
Other liabilities	(599)	(473)
Total available capital resources	<u>36,656</u>	<u>35,660</u>
Technical provisions:		
Best Estimate	(26,881)	(25,739)
Risk Margin	(1,033)	(1,024)
	<u>(27,914)</u>	<u>(26,763)</u>
Own funds	8,742	8,897
Capital requirement (SCR)	(4,028)	(3,753)
Assets in excess of capital requirements	<u><u>4,715</u></u>	<u><u>5,144</u></u>

Railway Enginemen's Assurance Society Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

17 FRS 103 LONG TERM INSURANCE CONTRACTS (CONTINUED)

Basis of Capital Requirement

The capital requirement is the higher of the Minimum Capital Requirement (MCR), set by Solvency II Regulations, and the Society's Solvency Capital Requirement (SCR). The MCR is set at €3.7million, which is translated into sterling based on the euro:sterling exchange rate on 31 October each year as declared by the European Commission. The MCR at 31 December 2020 was £3,337,696 (2019: £3,186,921). This increase relates solely to the movement in the euro:sterling exchange rate.

The calculated SCR for the Society at 31 December 2020 was £4,027,622 (2019: £3,752,993), meaning that the SCR remains higher than the MCR in 2020 and is shown as the capital requirement in the table above. The increase in the SCR of £274,629 is attributable to the following factors:

- An increase in equity holdings and holdings in non-sterling assets; and
- An increase in the transitional element that applies to directly held equities purchased before January 2016, which increases year on year, although partly offset by a more negative symmetric adjustment.

Movement in Technical Provisions

The Society's total technical provisions moved from £26,762,896 at 31 December 2019 to £27,914,142 at 31 December 2020.

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

Movement in technical provisions:	2020 £'000
Technical provisions at 1 January 2020	26,763
Change in valuation model	1
Change in data between 2019 and 2020	(1,168)
Change in risk-free rates	1,150
Change in mortality & morbidity assumptions	22
Change in expense assumption	(32)
Allowance for new business	543
Change in surrender value factors	30
Unwinding of discount rate	186
Change in volatility assumption	8
Change in bonus recommendations	411
Balance at 31 December 2020	<u>27,914</u>