

**RELIANCE MUTUAL  
INSURANCE SOCIETY LIMITED**

**ANNUAL REPORT AND GROUP ACCOUNTS 2000**

Registered in England No: 491580



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Report and Group Accounts

31 December 2000

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**RELIANCE MUTUAL  
INSURANCE SOCIETY LIMITED**

**Directors**

P E Oldham MA Chairman  
W J Cain BCom FCA  
L M Etheridge BSc FIA  
C B Russell FFA FTII

**Management**

L M Etheridge BSc FIA Chief Executive and Actuary  
T J Birse MA FIA Deputy Actuary  
P G Bowden BSc FCII Life and Pensions Manager  
R E Cuming Investment Manager  
A Prior LLB ACIS Secretary

**Auditors**

Baker Tilly  
2 Bloomsbury Street  
London WC1B 3ST

**Bankers**

Barclays Bank plc  
73-75 Calverley Road  
Tunbridge Wells  
Kent TN1 2UZ

**Registered and Administrative Office**

Reliance House  
Mount Ephraim  
Tunbridge Wells  
Kent TN4 8BL

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## RELIANCE MUTUAL INSURANCE SOCIETY LIMITED

### NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of the Reliance Mutual Insurance Society Limited will be held at Reliance House, Tunbridge Wells, Kent on Thursday 17 May 2001 for the following purposes:

1. To consider the Directors' Report and Accounts for the year ended 31 December 2000 and the Auditors' Report thereon.
2. To elect Directors. Mr P E Oldham retires by rotation and offers himself for re-election. Having been appointed since the last Annual General Meeting, Mr W J Cain retires and offers himself for election.
3. To appoint Auditors and authorise the Directors to determine their remuneration.

By Order of the Board



A Prior  
Secretary

22 March 2001

A Member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his/her stead, but such a proxy must be a Member of the Society. The Chairman of the Meeting is willing to act as proxy for any Member wishing to appoint him. The form of proxy, which can be obtained from the Secretary, must be deposited at the Registered Office of the Society not less than 48 hours before the time appointed for holding the Meeting.

A Member wishing to attend the Meeting is requested to apply to the Secretary for an admission ticket, quoting his/her policy number.

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**RELIANCE MUTUAL  
INSURANCE SOCIETY LIMITED**

**Chairman's Statement**

With the closure of our Direct Sales and Appointed Representative divisions at the end of 1999, adjustment to the new circumstances was the theme of 2000. Reduction in costs was a priority, including establishing an appropriate management structure. A major project to convert our computer systems to a cheaper and more efficient platform was completed on time.

Cost reductions and the release of capital previously tied up in financing new business have improved the financial position of the Society significantly. Consideration is being given to the most appropriate strategy for the Society, based on the interests of existing policyholders.

**New Business**

A limited range of new business is being accepted, principally increments to existing plans and the conversion of pension policies to annuities at retirement. Opportunities to write new lines of business are being carefully examined.

The British Life Unit Trust, which has an impressive track record, is open to new business. Clients can keep the proceeds of maturing policies with us through the medium of holdings in the Trust. Where we cannot satisfy a client's needs, referral is made to an Independent Financial Adviser.

**Pensions**

Emphasis has been placed on rapid progress with the pensions review, a major task. Offers have been made to 85% of Phase 2 cases, an achievement well ahead of the industry average. The review of free standing additional voluntary contribution contracts is well under way, with loss assessment calculations starting. By the end of the year we should have a clearer view of the cost of this review.

**Regulation**

My predecessor commented on the setting up of the Financial Services Authority in his last two statements. We welcome the risk based approach to regulation the Authority intends to take. We are currently reviewing our procedures to ensure we meet the requirements of the new regulatory regime, but have believed that responsibility for compliance must be at the highest levels.

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During the year a review of our endowment mortgage business was conducted in accordance with the guidelines issued by the Association of British Insurers. No major problems have been identified.

### **Investment**

Major world equity markets produced negative returns in 2000 with the FTSE All Share Index showing a return of minus 5.9% for U.K. equities. Our Life and Pensions Equity Funds fared rather better, falling by 1.3% and 2.7% respectively. Our Pension Managed Fund fell by 5.4% but the Life Managed Funds performed well with one almost unchanged and the other up by 10.5%.

The coming year may prove difficult for equity markets with further measures from the monetary authorities being required before investor confidence returns.

### **Reliance House**

Contracts have now been exchanged for the sale of Reliance House with completion subject to planning consent for residential use. We anticipate moving to new premises in Tunbridge Wells in May reflecting the reduced size of our operation and the need to contain expenses.

### **Directorate**

In July Stuart James resigned as Chairman and as a Director, having served the Board for 13 years, 9 years as Chairman. His contribution to the Society has been considerable for which I thank him. Jack Cain was appointed a Director in July, having previously been an executive at British Steel with experience of finance, investments and insurance.

### **Staff**

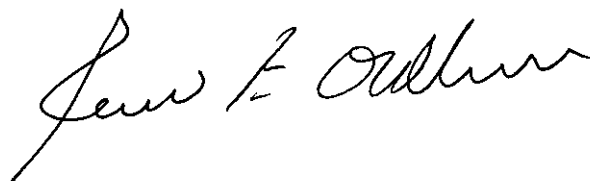
Our staff have responded well to the challenges of the year. Much work has been undertaken on the pensions review and computer system conversion as well as in general reorganisation and restructuring. I thank staff for their continuing enthusiasm and dedication.

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## **The Future**

Financial services businesses, especially smaller firms, face an uncertain future. Consolidation and new business opportunities must be considered whilst cost control will be the priority. The financial position of the Society has shown a welcome improvement over the year, giving us greater flexibility in assessing future strategy but the interests of existing policyholders remain at the forefront of the deliberations of the Board.

22 March 2001

A handwritten signature in black ink, appearing to read 'P E Oldham', written in a cursive style.

P E Oldham  
Chairman

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**RELIANCE MUTUAL  
INSURANCE SOCIETY LIMITED**

**Report of the Directors**

The directors present their report and the audited accounts for the year ended 31 December 2000.

**Principal Activities**

The principal activity of the group continues to be the transaction of long term insurance business, through both ordinary and industrial branches in the UK. With effect from 17 November 1999 the directors determined that the Reliance Mutual Group would cease actively marketing new insurance business through its direct salesforce and appointed representatives. A continuing service is being provided to existing policyholders and incremental business is being written.

**Review of Business**

Despite not actively marketing new business, additional premiums, net of cancellations of business written at the end of 1999, of £55,000 regular premiums and £4.168m single premiums were written. In addition proceeds of vesting pension policies totalling £3.76m were retained.

Stock market values fluctuated widely during the year but, in general, finished below the opening values. Yields on fixed interest securities fell slightly leading to increases in market values. Overall there was a decline in the value of the investments of 4% to £593m. Detailed accounts are set out on pages 12 to 32.

During the year the group made payments to, and augmented the value of policies belonging to clients as a result of the review of pension transfers and opt-outs. Part of the cost of these additional benefits has been provided in the accounts in previous years. A provision of £9.2m has been established to meet future payments resulting from the pensions review.

As a result of the decision made in 1999 to cease actively marketing new business through direct sales and appointed representatives, additional expenditure of £263,000 has been included in the profit and loss account and a provision for future costs of £2.3m is held in the balance sheet. The Society continues to have commitments with regard to property leases on the former branch office premises. These have been included within the provision but offset by the income that is expected to be received when the offices can be sub-let.



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Following guidance issued by the Association of British Insurers, the Society has reviewed the progress of all endowment assurance policies linked to mortgages during 2000. Clients have been issued with rejections of the possible future performance of their policies. No material costs have arisen as a result of this exercise.

The decision to cease actively marketing new business has improved the financial position of the Society for the benefit of members. The directors consider that the resources of the group are sufficient to meet policy liabilities as they fall due.

### **Actuarial Valuation and Bonus Declaration**

An investigation of the long term liabilities at 31 December 2000 has been made by the Actuary. The Actuary has determined appropriate provisions for the long term business liabilities which have been included in the accounts. Rates of bonus recommended for the main classes of policy and adopted by the directors are set out on page 11.

### **Directors**

The directors listed on page 2 served throughout the year with the exception of Mr Cain who was appointed on 13 July 2000. In addition Mr S C James served as a director and as chairman until he resigned from the board on 13 July 2000. Mr Oldham was appointed chairman from that date.

### **Liability Insurance**

During the year the Society purchased and maintained liability insurance for its directors and officers as permitted by the Companies Act 1985.

### **Employees**

The directors recognise the importance of employee involvement to the Society. This is maintained by effective communications, circulars and meetings. In addition employees have been regularly consulted through the Joint Staff Consultative Committee.

The Society continues to give full and fair consideration to applications for employment made by disabled people. Wherever possible it will continue the employment of, and provide appropriate training for, members of staff who become disabled.

### **Political and Charitable Contributions**

No political or charitable contributions were made during the year.

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### **Statement of Directors' Responsibilities**

Company law requires the directors to be responsible for the preparation of accounts for each financial year which give a true and fair view of the state of affairs of the Society and of the result of the group for that period. In preparing these accounts, the directors are required to:

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

The directors confirm that the accounts comply with these requirements.

The directors are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Auditors**

Fraser Russell, the auditors appointed at the previous Annual General Meeting, have merged their practice with that of Baker Tilly. Baker Tilly have signified their willingness to continue in office as auditors and resolutions concerning their re-appointment and remuneration will be proposed at the Annual General Meeting.

By order of the Board



A Prior  
Secretary

22 March 2001

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**REPORT OF THE AUDITORS**  
**to the Members of**  
**RELIANCE MUTUAL INSURANCE SOCIETY LIMITED**

We have audited the accounts of the Group and the Society on pages 12 to 32 which have been prepared on the basis of the accounting policies set out on pages 16 to 18.

**Respective Responsibilities of Directors and Auditors**

As described on page 9 the Society's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

**Basis of Opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

**Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the Group and the Society at 31 December 2000 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

22<sup>nd</sup> March 2001  
2 Bloomsbury Street  
London WC1B 3ST

*Baker Tilly*  
**BAKER TILLY**  
Chartered Accountants  
and Registered Auditors

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## Bonus Declaration as at 31 December 2000

On the recommendation of the Actuary, the directors have declared reversionary bonuses at the rates set out in the table below for the year ended 31 December 2000.

In addition an interim reversionary bonus will be added to the sum assured or annuity of every policy under which a claim arises by death, maturity or vesting between 1 January 2001 and 31 December 2001. Current rates of interim bonus are set out in the table below.

A terminal bonus will be paid on claims arising by death, maturity or vesting for policies effected in 1996 and earlier. Full details of the rates may be obtained on application to the Society.

Rates of interim bonus and terminal bonus are not guaranteed and may be altered at any time.

### Reversionary Bonuses

All rates are expressed as percentages of the sum assured or annuity as appropriate, with the exception of Reliance Ordinary Branch whole life and endowment assurances where the rate is a percentage of the sum assured and attaching bonuses.

Ordinary Branch	Declared Bonus	Interim Bonus
(a) Reliance whole life assurances and endowment assurances	£2.00	£1.50
(b) Burslem whole life assurances	£2.00	£2.00
(c) Reliance retirement annuities	£2.50	£1.90
Industrial Branch With-profit policies		
(a) Reliance policies	£1.75	£1.30
(b) Burslem (old tables)	£0.55	£0.40
(c) Other Burslem weekly tables	£1.67	£1.67
(d) Burslem monthly tables	£2.25	£2.25
Mortuary Bonus policies		
(e) Reliance policies without recurring endowments	£1.50	£1.15
(f) Reliance policies with recurring endowments	£1.40	£1.05

A small number of policies originally sold by the Congleton Burial Collecting Society and the Nation Life Insurance Company receive bonuses at rates outside the above scales.

**Consolidated Profit and Loss Account**  
for the year ended 31 December 2000

	Notes	2000 £000	1999 £000
Technical Account - Long Term Business			
TECHNICAL INCOME			
Gross premiums written	2	34,580	44,965
Outward reinsurance premiums		856	991
		<u>          </u>	<u>          </u>
Earned premiums, net of reinsurance		33,724	43,974
Investment income and realised gains	3	38,407	30,671
Unrealised gains on investments		-	115,972
Other technical income	4	1,723	3,586
		<u>          </u>	<u>          </u>
		73,854	194,203
		<u>=====</u>	<u>=====</u>
CLAIMS INCURRED			
Claims paid			
- gross amount		50,980	43,927
- reinsurers' share		1,628	1,880
		<u>          </u>	<u>          </u>
- net of reinsurance		49,352	42,047
		<u>          </u>	<u>          </u>
Change in provision for claims			
- gross amount		477	198
- reinsurers' share		119	(51)
		<u>          </u>	<u>          </u>
- net of reinsurance		358	249
		<u>          </u>	<u>          </u>
Total claims incurred		49,710	42,296
		<u>=====</u>	<u>=====</u>

## Consolidated Profit and Loss Account

for the year ended 31 December 2000

	Notes	2000 £000	1999 £000
CHANGE IN OTHER TECHNICAL PROVISIONS			
Long term business provision			
- gross amount		4,882	(840)
- reassurers' share		154	(909)
		<u>          </u>	<u>          </u>
- net of reinsurance		4,728	69
Provision for linked liabilities, net of reinsurance		(26,687)	131,820
		<u>          </u>	<u>          </u>
		(21,959)	131,889
		<u>          </u>	<u>          </u>
Technical Account - Long Term Business			
TECHNICAL CHARGES			
Net operating expenses	5	(1,796)	21,952
Investment expenses and charges	6	253	198
Unrealised losses on investments		40,962	-
Tax attributable to long term business	9	(944)	8,261
Other technical charges	4	238	(1,280)
Transfer (from) to fund for future appropriations	10	7,390	(9,113)
		<u>          </u>	<u>          </u>
		46,103	20,018
		<u>          </u>	<u>          </u>
BALANCE on technical account		<u>          </u> Nil	<u>          </u> Nil

There are no recognised gains or losses other than those shown above.

# Balance Sheets

at 31 December 2000

		2000		1999	
	Notes	Group £000	Society £000	Group £000	Society £000
Assets					
INVESTMENTS					
Land and buildings	12	3,028	3,028	3,026	3,026
Shares in group undertakings	13	-	9,687	-	16,398
Other financial investments	14	122,287	80,215	73,276	118,486
		<u>125,315</u>	<u>92,930</u>	<u>121,512</u>	<u>92,700</u>
ASSETS HELD TO COVER LINKED LIABILITIES		467,646	156,799	494,333	165,902
REASSURERS' SHARE OF TECHNICAL PROVISIONS					
Long term business provision	15	1,915	2,436	1,761	2,151
Provision for linked liabilities		16,451	17,153	18,519	19,335
Claims outstanding		1,025	333	1,172	209
		<u>19,391</u>	<u>19,922</u>	<u>21,452</u>	<u>21,695</u>
DEBTORS					
Debtors arising out of direct insurance operations		268	31	424	158
Debtors arising out of reinsurance operations		456	456	227	227
Due from group undertakings		-	111	-	1,035
Other debtors		946	229	1,745	96
		<u>1,670</u>	<u>827</u>	<u>2,396</u>	<u>1,516</u>
OTHER ASSETS					
Tangible assets	16	138	138	883	883
Cash at bank and in hand		102	55	1	1
		<u>240</u>	<u>193</u>	<u>884</u>	<u>884</u>
PREPAYMENTS AND ACCRUED INCOME					
Accrued investment income		1,372	715	1,103	747
Deferred acquisition costs	17	3,871	3,454	7,806	6,747
Other prepayments and accrued income		12	12	52	52
		<u>5,255</u>	<u>4,181</u>	<u>8,961</u>	<u>7,546</u>
TOTAL ASSETS		<u>619,517</u>	<u>274,852</u>	<u>649,538</u>	<u>290,243</u>

# Balance Sheets

at 31 December 2000

		2000		1999	
	Notes	Group £000	Society £000	Group £000	Society £000
Liabilities					
FUND FOR FUTURE APPROPRIATIONS	10	29,639	29,639	22,249	22,249
TECHNICAL PROVISIONS					
Long term business provision	15	79,890	46,957	75,008	46,325
Claims outstanding		6,302	4,686	6,091	4,502
		86,192	51,643	81,099	50,827
TECHNICAL PROVISION FOR LINKED LIABILITIES		484,097	173,952	512,852	185,237
PROVISIONS FOR OTHER RISKS AND CHARGES					
Deferred taxation	18	4,584	4,584	5,430	5,430
CREDITORS					
Creditors arising out of direct insurance operations		976	585	1,282	909
Creditors arising out of reinsurance operations		43	39	73	64
Due to group undertakings		-	1,030	-	-
Bank overdraft		240	-	1,140	530
Other creditors including taxation and social security	20	13,563	13,204	24,994	24,638
		14,822	14,858	27,489	26,141
ACCRUALS AND DEFERRED INCOME		183	176	419	359
TOTAL LIABILITIES		619,517	274,852	649,538	290,243

Approved by the Board on 22 March 2001

L M Etheridge  
Director

P E Oldham  
Director



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## Notes to the Accounts

at 31 December 2000

### 1. Accounting Policies

#### Basis of presentation

The accounts are prepared on the basis of the accounting policies set out below. The accounts have been prepared in compliance with the provisions relating to insurance groups of Section 255A of, and Schedule 9A to, the Companies Act 1985. In implementing these provisions the company has adopted a modified statutory solvency basis for determining technical provisions.

The accounts comply with applicable accounting standards. In addition, the company has had regard to the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998.

#### Basis of consolidation

These accounts consolidate the results of the parent Society with those of The British Life Office Limited which also transacts life assurance business and also with Reliance Fire and Accident Insurance Corporation Limited, Reliance Unit Managers Limited and Reliance ISA Managers Limited.

#### Premiums

Premiums are accounted for when they become due for payment. Reinsurance premiums are charged when they become payable. For linked business the due date for payment is taken as the date when the associated units are created.

#### Claims

Death claims are recognised on the basis of notifications received. Maturities and annuity payments are recognised when due for payment. Surrenders are accounted for at the earlier of the date when paid or when the policy ceases to be included within the long term business provision and/or the technical provision for linked liabilities. Reinsurance recoveries are credited to match the relevant gross amounts.

Claims incurred and the provision for outstanding claims include the direct and indirect cost of settlement.

Full provision is made for the estimated cost of claims notified but not settled at the balance sheet date and for claims incurred but not reported.

#### Investment income and expenses

Investment income and expenses include dividends, interest, rents, gains and losses on the realisation of investments and related expenses. Dividends are included as investment income on the date that shares become quoted ex-dividend and interest, rents and expenses are included on an accruals basis. Dividends are shown net of tax credits or overseas taxation where these are irrecoverable.

Realised gains and losses on investments are calculated as the difference between net sale proceeds and original cost. Unrealised gains and losses on investments are reported in the technical account.

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## Investments

Investments consist of land and buildings, listed investments, units in authorised unit trusts and similar collective investment schemes, mortgages, loans and deposits.

Properties owned and occupied by the Society are included as investments. They are valued every three years on an open market valuation basis with vacant possession by independent qualified chartered surveyors from the group's property advisers. The most recent valuation was at 1 April 1998.

Investment properties held to cover the technical provision for linked liabilities are valued annually on the anniversary of acquisition at an open market sale value by independent qualified chartered surveyors from the group's property advisers. Other investment properties are valued by the directors at the balance sheet date on the same basis.

Although the Companies Act would normally require the systematic annual depreciation of land and buildings held as investment properties, the directors believe that the policy of not providing depreciation is necessary in order for the accounts to give a true and fair view, since the current value of investment properties, and changes in that current value, are of greater importance than a calculation of systematic annual depreciation. Depreciation is one of many factors included in an independent valuation, and the amount which might otherwise have been shown cannot be separately identified or quantified.

Shares in group undertakings are included at net asset value in the Society's balance sheet.

Other assets held to cover the technical provision for linked liabilities are valued at offer price plus buying expenses on the last pricing date of the financial year. Accrued income on fixed interest securities is excluded and an allowance is made for deferred taxation on unrealised capital gains. This is consistent with the method of valuation of the liabilities.

Other stock exchange securities are valued at mid market price excluding accrued income on fixed interest holdings. Unit trust holdings are valued at bid price.

Mortgages, loans and deposits are stated at par.

### Tangible assets and depreciation

Tangible assets are capitalised and depreciated over their useful economic lives on the following basis:

Computer Hardware	33 1/3% per annum on a straight line basis.
Motor Vehicles	25% per annum on a straight line basis.
Office Equipment	25% per annum on a straight line basis.

Full depreciation is charged in the year of acquisition and no depreciation in the year of disposal.

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#### Long term business provision

The mathematical reserves are determined by the Actuary following the annual investigation of the long term business.

The long term business provision is determined by the Actuary and involves making modifications to the mathematical reserves calculated for solvency purposes as follows:

- any resilience, close-down and other contingency reserves required under the Insurance Companies Regulations to demonstrate statutory solvency have been deducted;
- in cases where the valuation method makes use of a zillmer adjustment to allow for deferral of acquisition costs, the effect of this is removed and deferred acquisition costs shown as an asset in the balance sheet.

#### Deferred acquisition costs

Deferred acquisition costs are assessed by the Actuary taking account of the costs incurred in the sale of existing contracts and the potential for recovery of those costs out of margins available over the remaining life of the policies concerned. No acquisition costs are deferred in respect of single premium contracts.

#### Fund for future appropriations

The fund for future appropriations represents all funds the allocation of which to policyholders has not yet been determined by the end of the financial year. Any surplus or deficit arising on the technical account is transferred to or from the fund on an annual basis.

#### Deferred taxation

Deferred taxation is provided at a discounted rate of corporation tax in respect of all timing differences. The discount reflects the delay between the notional disposal of the relevant assets and the associated tax charge being due. Where the timing differences relate to unrealised gains on assets attributable to the technical provision for linked liabilities the provision is included within the value of the relevant assets.

#### Foreign currencies

Assets and liabilities held in foreign currencies are translated to sterling at rates of exchange ruling at the end of the year. Income and expenditure denominated in foreign currencies are translated at the appropriate rates prevailing during the year.

#### Pensions

The Society operates a defined benefit pension scheme. Contributions are charged to the profit and loss account in accordance with Statement of Standard Accounting Practice 24 - Accounting for Pension Costs.

## 2. Gross Premiums Written

All business is written in the UK in respect of continuing operations and relates solely to individual assurance contracts.

Gross premiums written comprise:	2000 £000	1999 £000
Direct insurance	34,579	44,952
Reassurance inward	1	13
	<hr/>	<hr/>
	34,580	44,965
	<hr/>	<hr/>

Gross premiums written by way of direct insurance can be analysed as follows:

Periodic premiums	30,400	33,147
Single premiums	4,179	11,805
	<hr/>	<hr/>
	34,579	44,952
	<hr/>	<hr/>
Industrial branch life assurance	385	445
Ordinary branch life assurance	19,577	25,228
Pensions	14,386	18,988
Sickness and disability contracts	231	291
	<hr/>	<hr/>
	34,579	44,952
	<hr/>	<hr/>
Investment linked contracts	31,229	41,813
Non linked contracts	3,350	3,139
	<hr/>	<hr/>
	34,579	44,952
	<hr/>	<hr/>

## New business premiums

All business derives from contracts concluded in the United Kingdom. No material amounts of business were reassured other than on a risk premium basis. No new inwards reinsurance was accepted.

	2000 £000	1999 £000
Periodic premiums:		
Ordinary branch life assurance		
Investment linked contracts	(6)	2,269
Non linked contracts	5	348
Sickness and disability contracts	(4)	112
Pensions business		
Investment linked contracts	60	1,306
Non linked contracts	-	28
	<hr/> 55	<hr/> 4,063
Single premiums:		
Ordinary branch life assurance		
Investment linked contracts	86	4,499
Non linked contracts	-	18
Pensions business		
Investment linked contracts	4,082	7,256
	<hr/> 4,168	<hr/> 11,773

## 3. Investment Income and Gains

	2000 £000	1999 £000
Investment income:		
Income from land and buildings	379	246
Income from listed investments	12,989	13,377
Income from other investments	4,040	3,339
	<hr/> 17,408	<hr/> 16,962
Value readjustments on investments	29	291
Net gains on realisation of investments	20,970	13,418
	<hr/> 38,407	<hr/> 30,671

#### 4. Other Technical Income and Charges

These relate to gross profit on unit trust management, general business technical income and charges, investment income, gains, expenses and taxation charged to the non technical accounts of subsidiary companies.

	2000 £000	1999 £000
a) Other technical income		
Gross profit on unit trust management	930	845
General business technical income	-	6
Income from listed investments	457	338
Income from other investments	187	432
Net gains on realisation of investments	(16)	1,965
Unrealised profits on investments	165	-
	<hr/> 1,723	<hr/> 3,586
b) Other technical charges		
Administrative expenses	65	48
Investment expenses and charges	211	199
Unrealised losses on investments	-	753
Taxation	(38)	(2,280)
	<hr/> 238	<hr/> (1,280)

#### 5. Net Operating Expenses

	2000 £000	1999 £000
Acquisition costs	132	9,760
Change in deferred acquisition costs	3,935	(348)
Administrative expenses	1,811	2,748
Reassurance commissions and profit participation	(17)	(254)
Exceptional items		
Closure costs (note 22)	263	5,787
Pension Review costs (note 23)	(7,920)	4,259
	<hr/> (1,796)	<hr/> 21,952

Included within administrative expenses are:

Audit fees	82	86
Operating lease rentals - equipment	122	42
Depreciation of tangible assets	(740)	677

## 6. Investment Expenses and Charges

	2000 £000	1999 £000
Investment expenses	251	198
Value readjustments on investments	2	-
	<hr/>	<hr/>
	253	198
	<hr/>	<hr/>

## 7. Employee Information

The average number of persons (including executive directors) employed by the Society during the year was:

	2000	1999
Management	5	9
Administration	116	172
Home Service fieldforce	34	44
Sales Division	-	182
	<hr/>	<hr/>
	155	407
	<hr/>	<hr/>

Staff costs for the above totalled:

	£000	£000
Salaries and commissions	3,102	7,883
Social Security costs	312	868
Termination costs	272	1,422
	<hr/>	<hr/>
	3,686	10,173
	<hr/>	<hr/>

## 8. Directors' Emoluments

	2000 £000	1999 £000
Total directors' emoluments	162	716
For the highest paid director:		
Remuneration and benefits	115	191
Termination payment	-	365
Accrued pension under defined benefit scheme	40	63

During the year Mr L M Etheridge was a member of the group's defined benefit pension scheme.

The accrued pension benefits disclosed for 1999 have been enhanced and are payable from 1 January 2003, earlier than the scheme's normal retirement date. This represents an increase in the value of pension benefits of £250,000

The previous Chairman, who resigned on 13 July 2000, received no emoluments but the firm of which he is a Partner was paid £10,448 (1999 £19,123) (including VAT) for his services as Chairman during the year. The current Chairman received emoluments totalling £11,701 in respect of his service as Chairman.

## 9. Taxation

The charge to tax in the profit and loss account is made up as follows:

	2000 £000	1999 £000
UK Corporation tax at 21.6% (1999 - 21.7%)	2,895	1,242
Deferred taxation within technical provision for linked liabilities	(2,915)	5,093
Other deferred taxation (see note 18)	(847)	1,819
Prior year adjustment	(77)	107
	<hr/> (944) <hr/>	<hr/> 8,261 <hr/>

Tax suffered on investment income in excess of the tax charge will be recovered.

## 10. Fund for future appropriations

	2000		1999	
	Group £000	Society £000	Group £000	Society £000
Balance as 1 January	22,249	22,249	31,362	31,362
Transfer from (to) profit and loss account	7,390	7,390	(9,113)	(9,113)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December	29,639	29,639	31,362	31,362
	<hr/>	<hr/>	<hr/>	<hr/>

## 11. Historical Cost Accounting Basis

There are no recognised gains or losses for 2000 or 1999 other than the balance on the long term business technical account. The inclusion of unrealised gains and losses in the profit and loss account to reflect the valuation of investments in accordance with the accounting policies stated in Note 1 is not considered to be a departure from the historical cost basis of accounting and a separate note of historical cost profits and losses is therefore unnecessary.



## 12. Land and Buildings

All land and buildings were owned throughout 2000 and 1999 by the parent Society.

Valuation at 31 December

Freehold property occupied by the Society	2,325	2,325
Other freehold property	703	701
	<u>3,028</u>	<u>3,026</u>

The freehold property occupied by the Society is treated as an investment. No depreciation is charged as the directors do not consider that any amounts would be material. During 1999 part of this property ceased to be used by the Society and was reclassified as other freehold property.

Movements in other freehold property were:

Value at 1 January	701	148
Transfers at valuation	-	675
Disposals at valuation	-	(100)
Value adjustments	<u>2</u>	<u>(22)</u>
Value at 31 December	<u>703</u>	<u>701</u>

Subsequent to the balance sheet date contracts have been entered into for the sale of the property occupied by the Society and adjacent properties. These properties total £3.0m of the valuation at 31 December 2000. As the contracts are conditional on planning permission being received and would necessarily involve relocation expenses for which no provision is made in these accounts, the directors do not consider it appropriate to take credit for the excess of the contracted sale price over the current valuation.

### 13. Group Undertakings

At the balance sheet date the Society held 100% of the issued share capital of the following companies.

	2000		1999	
	Net Asset Value £000	Cost £000	Net Asset Value £000	Cost £000
The British Life Office Limited	8,307	25,000	14,807	25,000
Reliance Fire and Accident Insurance Corporation Limited	684	1,000	641	1,000
Reliance Unit Managers Limited	596	50	849	50
Reliance Pension Scheme Trustee Limited	-	-	-	-
Reliance ISA Managers Limited	100	100	101	100
	<u>9,687</u>	<u>26,150</u>	<u>16,398</u>	<u>26,150</u>

Group undertakings have been included at net asset value in the Society's balance sheet.

Details of group undertakings are:

	Incorporated	Principal Activity
The British Life Office Limited	Scotland	Long term insurance
Reliance Fire and Accident Insurance Corporation Limited	England	General insurance
Reliance Unit Managers Limited	England	Unit Trust management
Reliance Pension Scheme Trustee Limited	England	Trustee
Reliance ISA Managers Limited	England	Dormant

### 14. Other Financial Investments

#### a) Group Balance Sheet

	2000		1999	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Shares and other variable yield securities and units in unit trusts	38,124	20,803	40,099	19,661
Debt securities and other fixed income securities	62,360	58,270	60,531	61,123
Loans secured by mortgages	996	996	1,337	1,337
Loans secured by insurance policies	928	928	862	862
Other loans	186	186	342	342
Deposits with credit institutions	19,693	19,693	15,315	15,315
	<u>122,287</u>	<u>100,876</u>	<u>118,486</u>	<u>98,640</u>

b) Society Balance Sheet

	2000		1999	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Shares and other variable yield securities and units in unit trusts	35,212	18,206	36,383	16,372
Debt securities and other fixed income securities	26,613	24,912	27,579	26,379
Loans secured by mortgages	996	996	1,337	1,377
Loans secured by insurance policies	928	928	862	862
Other loans	186	186	342	342
Deposits with credit institutions	16,280	16,280	6,773	6,773
	<hr/>	<hr/>	<hr/>	<hr/>
	80,215	61,508	73,276	52,105
	<hr/>	<hr/>	<hr/>	<hr/>

c) Analysis of market values of other financial investments

	2000		1999	
	Group £000	Society £000	Group £000	Society £000
Shares and other variable yield securities and units in unit trusts				
Listed on a recognised investment exchange	30,378	30,331	32,508	31,709
Other listed investments	7,746	4,881	7,591	4,674
	<hr/>	<hr/>	<hr/>	<hr/>
	38,124	35,212	40,099	36,383
	<hr/>	<hr/>	<hr/>	<hr/>

The debt securities and other fixed income securities were all listed on recognised investment exchanges.

## 15. Long Term Business Provision

This provision is determined by adjusting the mathematical reserves determined by the actuary for statutory solvency purposes. The adjustments allow for:

- deferral of acquisition costs by means of a zillmer adjustment for certain policies
- removal of resilience and other reserves required to demonstrate statutory solvency.

Bonus declared as a result of the valuation is included within the long term business provision.

	2000		1999	
	Group	Society	Group	Society
	£000	£000	£000	£000
Gross amount				
Mathematical reserves, before bonus	80,163	45,930	79,753	51,070
Cost of bonus added at year end	503	503	510	510
Zillmer adjustment	524	524	545	545
Resilience reserve	(1,300)	-	(5,800)	(5,800)
Long term business provision	79,890	46,957	75,008	46,325
Reassurance				
Mathematical reserves, before bonus	1,827	2,348	1,672	2,062
Cost of bonus added at year end	-	-	1	1
Zillmer adjustment	88	88	88	88
Long term business provision	1,915	2,436	1,761	2,151
Net amounts				
Mathematical reserves, before bonus	78,336	43,582	78,081	49,008
Cost of bonus added at year end	503	503	509	509
Zillmer adjustment	436	436	457	457
Resilience reserves	(1,300)	-	(5,800)	(5,800)
Long term business provision	77,975	44,521	73,247	44,174

The mathematical reserves were calculated using the following assumptions for the main classes of business.

	Mortality (ultimate tables)	Interest	
Ordinary Branch		2000	1999
- with profit assurances	A92	2.50%	2.75%
- without profit assurances	A92	3.25%	3.50%
- life annuities in payment	I92	4.00%	4.00%
- pension annuities in payment	PA92	5.00%	5.00%
- pension without profit assurances	A92	4.06%	4.38%
Industrial Branch			
- with profit assurances	ELT15	2.50%	2.75%
- mortuary bonus assurances	ELT15	2.88%	3.13%
- without profit assurances	ELT15	3.25%	3.50%

The annuitant mortality has been adjusted to incorporate factors for future improvements published by the Continuous Mortality Investigation Bureau of the Faculty and Institute of Actuaries and a further margin included by the use of 95% of the published mortality rates.

## 16. Tangible Assets

	Motor Vehicles £000	Computer Hardware £000	Office Equipment £000	Total £000
Cost:				
Brought forward	1,837	311	206	2,354
Less: Fully depreciated items	(168)	(80)	(121)	(369)
Additions	-	28	-	28
Disposals	(1,512)	-	-	(1,512)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	157	259	85	501
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation:				
Brought forward	1,125	181	165	1,471
Less: Fully depreciated items	(168)	(80)	(121)	(369)
Eliminated on disposal	(885)	-	-	(885)
Charge for the year	39	86	21	146
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	111	187	65	363
	<hr/>	<hr/>	<hr/>	<hr/>
Book value at 31 December 2000	46	72	20	138
	<hr/>	<hr/>	<hr/>	<hr/>
Book value at 31 December 1999	712	130	41	883
	<hr/>	<hr/>	<hr/>	<hr/>

## 17. Deferred Acquisition Costs

	2000		1999	
	Group £000	Society £000	Group £000	Society £000
Deferred acquisition costs comprise:				
Gross amount	4,595	4,071	8,672	7,506
Reassurance amount	724	617	866	759
	<u>3,871</u>	<u>3,454</u>	<u>7,806</u>	<u>6,747</u>
Movements in the net provision are:				
Provision brought forward	7,806	6,747	7,457	5,717
Cost deferred during year	33	31	3,594	3,197
Amortisation of previously deferred costs	(3,968)	(3,324)	(3,245)	(2,167)
	<u>3,871</u>	<u>3,454</u>	<u>7,806</u>	<u>6,747</u>

Full provision is made for deferred taxation on the deferred acquisition cost asset (see Note 18).

## 18. Deferred Taxation

Deferred taxation is provided at the full rate on all net timing differences. All the provision relates to the parent Society.

	2000 £000	1999 £000
On deferred acquisition costs	691	1,349
On other timing differences	3,893	4,081
	<u>4,584</u>	<u>5,430</u>

## 19. Pension Costs

As employer Reliance Mutual participates in the Reliance Pension Scheme. The scheme provides defined benefits to members based on their service with the Society and level of remuneration and is funded to ensure payment of accrued benefits as they fall due. The funding policy is to charge the revenue account with the level of contribution determined by the funding method, reduced by spreading prepayments and the surplus at the most recent valuation date over the average remaining service life of current scheme members.

Pension costs are assessed in accordance with the advice of Mr R S Thomson, FIA, the Actuary to the scheme. The most recent formal valuation of the scheme was carried out as at 31 March 1998 using the projected unit method with the following assumptions:

Valuation rate of interest	8.00% p.a.
Earnings inflation in excess of salary scale	5.50% p.a.
Equity dividend growth	3.75% p.a.
Rate of increase in retail price index	5.50% p.a.

At the valuation date the market value of the scheme's assets was £28.8m. The ongoing contribution rate determined by the funding method was 20% of pensionable salaries of current active members. The scheme was funded at a level of 128% of the value of liabilities.

No pensions cost has been charged in the profit and loss account. Based on a financial review of the scheme as at 31 March 2000 the Actuary has confirmed that the scheme surplus is sufficient to provide for all future service pension costs accruing over the average remaining service lives of current scheme members.

## 20. Other Creditors

	2000		1999	
	Group	Society	Group	Society
Cessation of new business (see Note 22)	2,300	2,300	4,455	4,455
Pensions transfers and opt-outs (see Note 23)	9,200	9,200	19,000	19,000
Taxation and social security	1,795	1,564	1,335	1,118
Other creditors	268	140	204	65
	<hr/>	<hr/>	<hr/>	<hr/>
	13,563	13,204	24,994	24,638
	<hr/>	<hr/>	<hr/>	<hr/>

## 21. Contingent Liabilities and Other Commitments

At 31 December 2000 the Society had entered into no significant finance lease contracts or capital commitments.

The Society has outstanding commitments in respect of property leases on the former branch offices. These have been included within the provision disclosed in Note 22.

## 22. Cessation of New Business

Total costs of £263,000 resulting from the decision to cease actively marketing new business in 1999 have been charged to the profit and loss account within operating expenses (see Note 5). The amount is made up as follows:

	2000 £000	1999 £000
Costs incurred in year	2,418	1,332
Provision for future costs	2,300	4,455
	<u>4,718</u>	<u>5,787</u>
Provision brought forward	4,455	-
	<u>263</u>	<u>5,787</u>

Within the provision for future costs, the directors have made estimates of the income which might accrue were the former branch premises sub-let. This income has been offset against the rental outgo on the relevant leases in calculating the provision.

## 23. Provision for Pension Transfers and Opt-Outs

Included in other creditors is a provision of £9.2 million in respect of costs of redress and the cost of carrying out a review, relating to pension transfers and opt-outs. The amount of the provision has been determined taking into account guidance issued by the Regulator and the experience of redress payment made. The directors, taking account of the information available, have made reasonable estimates of the provision.

The change in the provision together with payments in respect of redress and expenses have been reflected in the profit and loss account as follows:

	2000 £000	1999 £000
Provision at 31 December	9,200	19,000
Provision at 1 January	19,000	15,750
	<u>          </u>	<u>          </u>
Change in provision	(9,800)	3,250
Direct expenses incurred	1,880	1,009
	<u>          </u>	<u>          </u>
Included within operating expenses (see Note 5)	(7,920)	4,259
Redress payments made		
within claims incurred	3,902	4,574
within increase in long term business provision	1,515	660
within increase in technical provision for linked liabilities	6,508	2,635
	<u>4,005</u>	<u>12,128</u>

The significant item giving rise to the increased costs of the pensions review in 2000 was the poor performance of equity markets and hence of our pension unit-linked funds. This widened the gap between the value of benefits retained in an occupational pension scheme and that of a personal pension plan.



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## 24. Transactions with Related Parties

No directors or senior managers were in receipt of loans from the company at any time during the year.

The Memorandum and Articles of Association of the Society require directors to be Members.

All directors and senior managers are Members of the Society and as such are policyholders on the same terms as available to all members of staff.

Rowe and Maw, in which Mr S C James is a partner, provided legal advice to the group. Payments for this advice, in addition to the payments for Mr James' services as Chairman, disclosed in Note 8, totalled £15,216.

Mr C B Russell provided taxation advice to the group. Payments for this advice, in addition to Mr Russell's emoluments as a director, totalled £5,464.