

**RELIANCE MUTUAL
INSURANCE SOCIETY LIMITED**

ANNUAL REPORT AND GROUP ACCOUNTS 2003



Registered in England No: 491580

Report and Group Accounts

31 December 2003

**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
T J Birse MA FIA Actuary
P G Bowden BSc FCII Life and Pensions Manager
R E Cuming Investment Manager
A Prior LLB ACIS Secretary

Auditors

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge Street
London SE1 9SY

Bankers

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

Registered and Administrative Office

The Great Hall
Mount Pleasant Road
Tunbridge Wells
Kent TN1 1RG

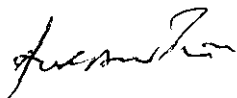
RELIANCE MUTUAL INSURANCE SOCIETY LIMITED

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 The Great Hall, Mount Pleasant Road, Tunbridge Wells, Kent on Tuesday 11 May 2004 at 12.30 p.m. for the following purposes:

1. To consider the Directors' Report and Financial Statements for the year ended 31 December 2003 and the Auditors' Report thereon.
2. To elect Directors. Mr W J Cain retires by rotation and offers himself for re-election.
3. To appoint Auditors and authorise the Directors to determine their remuneration.

By Order of the Board



A Prior
Secretary

11 March 2004

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.

**RELIANCE MUTUAL
INSURANCE SOCIETY LIMITED**

CHAIRMAN'S STATEMENT

The financial strength of Reliance has allowed us to pursue a range of new business opportunities despite 2003 being a difficult year for many other life assurance companies. Blocks of existing business and the development of new products have been pursued in a year of further progress in keeping Reliance in the low cost operating environment in which all life companies now need to operate. The interests of existing policyholders remain a key consideration whenever new business opportunities are assessed. It is pleasant to report that payouts to with profit policyholders compare very favourably to the market.

New Business

New business during the year grew by 49%, a very good result when coupled with the 238% growth in 2002. The overall level of new business is now similar to that when the company operated through a tied sales force, but the level of cost involved in acquiring the business is very substantially lower.

Our smoker annuity contract produced further growth in 2003 and the results in the last few months suggest that 2004 will be another good year. We have successfully developed high quality IFA connections who market the product and we are pleased to be able to offer our clients an excellent value contract.

At the start of 2003 we entered the credit life market and this contributed to our new business results. New markets for credit life business opened up to us later in the year through our acquisition of Criterion Life Assurance Limited.

A number of other new projects are underway for 2004 and we will be launching some new protection products which will principally be sold through the internet on a basis which will allow clients to meet their life assurance needs quickly and efficiently.

Acquisition of blocks of business

The acquisition of blocks of business fits well with our ongoing strategy. On 10 October 2003 we acquired Criterion Life Assurance Limited which had formerly been part of the Criterion Insurance Group. The business is now being transferred to Tunbridge Wells in order to achieve economies of scale which will be beneficial to all our policyholders. Subject to Court approval the business will be transferred into Reliance Mutual through a Schedule VII transfer in June 2004, along with that of our other life assurance subsidiary, The British Life Office Limited.

We have identified a number of further blocks of business and a second transfer is planned for 30 September 2004, which should give further significant benefit to our existing policyholders.

Investment

Despite a poor start to 2003 major equity markets worldwide staged a recovery in mid March as valuations relative to bonds became attractive. A quick victory in Iraq, fiscal stimulation in the US, improving corporate results and generally positive economic data in a low interest rate environment enabled share prices to end the year with double-digit returns. The UK All-Share and US Standard & Poors indices rose by 16.6% and 26.4% respectively, although dollar weakness reduced the US return to 14.1% for sterling based investors. Government bonds, however, showed little movement and even with the help of a year end liquidity led rally the FTSE Government Securities over 15 year Total Return Index rose by only 1.2%.

After three years of falling equity markets it is pleasing to report positive returns. Although commercial property lost its position as the best-performing major asset class on a twelve month basis in September, it is satisfying that the Reliance Second Property Fund was awarded 1st place in the UK Sector Awards section of Standard & Poors Fund Awards for 2003. Similarly in the Global Funds sector the Trust Managed Fund was recognised for its five year performance, again achieving 1st place.

Staff

The development activities which we have undertaken over the last 12 months have provided considerable additional work for our staff in Tunbridge Wells. Once again, they have risen to the challenge and I thank them for the significant part they are playing in the redevelopment of our business.

Board

In view of the prospects for the company we are seeking two new non executive directors. Appointments should be announced shortly.

The Future

The Board regularly reviews the strategy of the business. Driving the strategy are the objectives of adding value for our with-profits policyholders and operating in a cost efficient manner. We will continue to concentrate on the areas where we have the appropriate expertise and intend to leave the responsibility for giving advice to clients to others. The Society remains in a good position to take advantage of the opportunities existing in the market.



P E Oldham
Chairman

11 March 2004

**RELIANCE MUTUAL
INSURANCE SOCIETY LIMITED****Report of the Directors**

The directors present their report and the audited financial statements for the year ended 31 December 2003.

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.

Review of Business

On 10 October 2003 Reliance Mutual Insurance Society Limited purchased the whole of the issued share capital of Criterion Life Assurance Limited. It is expected that this purchase and the transfer of the administration of the Criterion business to Tunbridge Wells will achieve economies of scale for the benefit of all policyholders. Further details regarding this acquisition are given in the Chairman's Statement.

The Group's smoker annuity product, underwritten by The British Life Office Limited, continued to prove successful and attracted £39.3m new single premiums. In addition, proceeds of vesting pensions totalling £3.3m were retained. A continuing service offering increment business to existing clients was provided. The Society commenced writing credit life insurance business during the year which attracted £2.7m new single premiums. An additional £4.7m of credit life insurance was written in Criterion Life Assurance in the final quarter of the year. Excluding business from Criterion Life Assurance, new business of £0.1m (2002 £0.1m) regular premium and £51.1m (2002 £34.2m) single premiums were written.

Stock market values rose during the year with the FTSE All Share Index finishing 16.6% above its opening value. Yields of fixed interest securities rose slightly leading to reductions in market values. Overall the market value of the Group's investments rose to £761m.

The Society continues to have commitments with regard to property leases on former branch office premises. A provision of £1.3m has been established to meet future payments under the remaining 7 leases. The amount is determined with regard to income expected from sub tenants.

Stock market falls affected the group's financial position during the year, but the effects were offset by the emergence of surplus from the in-force business. The directors consider that the resources of the group are sufficient to meet policies liabilities as they fall due.

Actuarial Valuation and Bonus Declaration

An investigation of the long term liabilities at 31 December 2003 has been made by the Actuary. The Actuary has determined appropriate provisions for the long term business liabilities which have been included in the financial statements. 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. Mr W J Cain retires by rotation and, being eligible, offers himself for re-election. All directors are members of Reliance Mutual Insurance Society Limited, and as such are also policyholders. Messrs Etheridge, Oldham and Russell have shareholdings in the subsidiary companies as nominees of the Society. No director has any beneficial interest in the subsidiary companies.

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.

Pensions

The Society has maintained a defined benefit scheme for employees for many years. Following some years when a contribution holiday has been taken, the Society has recommenced contribution to the scheme from the 2002/3 scheme year.

Political and Charitable Contributions

No political contributions were made during the year. Charitable contributions totalled £553 (2002 - £867).

Statement of Directors' Responsibilities

Company law requires the directors to be responsible for the preparation of financial statements 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 financial statements, 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 financial statements on a going concern basis unless it is inappropriate to assume the Society will continue in business.

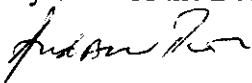
The directors confirm that the financial statements comply with these requirements.

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

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be re-appointed will be proposed at the annual general meeting.

By order of the Board



A Prior
Secretary

11 March 2004

INDEPENDENT AUDITORS REPORT
to the Members of
RELIANCE MUTUAL INSURANCE SOCIETY LIMITED

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared in accordance with the accounting policies set out in the Statement of Accounting Policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Chairman's Statement and the directors' report.

Basis of audit 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Society and the group at 31 December 2003 and of the group's result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge Street
LONDON SE1 9SY

11 March 2004

Bonus Declaration

as at 31 December 2003

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 2003.

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 2004 and 31 December 2004. 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 under all with profits policies. 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 insurances where the rate is a percentage of the sum assured and attaching bonuses.

Ordinary Branch	Declared Bonus	Interim Bonus
(a) Reliance whole life insurances and endowment insurances	2.00	1.50
(b) Burslem whole life insurances	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 2003

	Notes	2003 £000	2002 £000
Technical Account – Long Term Business			
TECHNICAL INCOME			
Gross premiums written	2		
- acquisitions		29,042	-
- other continuing operations		71,771	57,884
Outward reinsurance premiums		3,419	(1,389)
		<u> </u>	<u> </u>
Earned premiums, net of reinsurance		104,232	56,495
Investment income	3	22,947	24,660
Unrealised gains	3	62,003	-
Other technical income	4	516	279
		<u> </u>	<u> </u>
		<u>189,698</u>	<u>81,434</u>
CLAIMS INCURRED			
Claims paid			
- gross amount		(46,182)	(45,139)
- reinsurers' share		3,257	2,218
		<u> </u>	<u> </u>
- net of reinsurance		(42,925)	(42,921)
		<u> </u>	<u> </u>
Change in provision for claims			
- gross amount		(528)	603
- reinsurer's share		(121)	(79)
		<u> </u>	<u> </u>
- net of reinsurance		(649)	524
		<u> </u>	<u> </u>
Total claims incurred		<u>(43,574)</u>	<u>(42,397)</u>

Consolidated Profit and Loss Account
for the year ended 31 December 2003

	Notes	2003 £000	2002 £000
CHANGE IN OTHER TECHNICAL PROVISIONS			
Long term business provision			
- gross amount	17	(33,649)	(34,255)
- reinsurers' share		93	1,557
- net of reinsurance		<u>(33,556)</u>	<u>(32,598)</u>
Provision for linked liabilities, net of reinsurance	17	(88,878)	74,982
		<u>(122,434)</u>	<u>42,384</u>
TECHNICAL CHARGES			
Net operating expenses	5	(10,652)	(2,902)
Investment expenses and charges	6	(917)	(243)
Unrealised losses on investments	3	-	(87,226)
Other technical charges	4	(41)	(227)
Tax attributable to long term business	9	(3,002)	5,946
Transfer from/(to) fund for future appropriations	10	(9,078)	3,231
		<u>(23,690)</u>	<u>(81,421)</u>
BALANCE on technical account		<u>Nil</u>	<u>Nil</u>

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

All operations are continuing.

The notes on pages 16 to 38 form an integral part of these accounts.

Balance Sheets

At 31 December 2003

Assets	Notes	2003		2002	
		Group £000	Society £000	Group £000	Society £000
INTANGIBLE ASSETS					
Goodwill	14	(585)	-	-	-
INVESTMENTS					
Land and Buildings	11	-	-	10	10
Investments in group undertakings	12	-	23,541	-	8,776
Other financial investments	13	226,338	62,918	147,172	68,425
		<u>226,338</u>	<u>86,459</u>	<u>147,172</u>	<u>77,211</u>
ASSETS HELD TO COVER LINKED LIABILITIES					
	15	534,397	139,458	324,034	117,337
REINSURERS' SHARE OF TECHNICAL PROVISIONS					
Long term business provision	16	7,382	4,098	4,076	4,401
Claims outstanding	17	679	29	608	150
Technical provision for linked liabilities	17	-	457	8,549	9,008
		<u>8,061</u>	<u>4,584</u>	<u>13,233</u>	<u>13,559</u>
DEBTORS					
Debtors arising out of direct insurance operations		2,430	23	268	25
Debtors arising out of reinsurance operations		-	-	128	128
Due from group undertakings		-	1	-	21
Other debtors		2,838	824	489	188
		<u>5,268</u>	<u>848</u>	<u>885</u>	<u>362</u>
OTHER ASSETS					
Tangible assets	18	42	42	46	46
Cash at bank and in hand		3,475	489	1,860	713
Other	19	1,930	-	117	117
		<u>5,447</u>	<u>531</u>	<u>2,023</u>	<u>876</u>
PREPAYMENTS AND ACCRUED INCOME					
Accrued interest and rent		2,916	322	1,587	433
Deferred acquisition costs		1,654	1,425	1,967	1,700
Other prepayments and accrued income		59	59	-	-
		<u>4,629</u>	<u>1,806</u>	<u>3,554</u>	<u>2,133</u>
TOTAL ASSETS		783,555	233,686	490,911	211,478

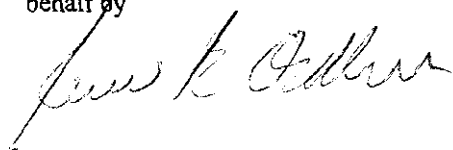
Balance Sheets

At 31 December 2003


Liabilities	Notes	2003		2002	
		Group £000	Society £000	Group £000	Society £000
FUND FOR FUTURE APPROPRIATIONS	10	42,993	38,947	29,260	29,260
TECHNICAL PROVISIONS					
Long term business provision	16	190,281	46,491	117,231	48,298
Claims outstanding	17	6,085	4,522	5,542	4,092
		196,366	51,013	122,773	52,390
TECHNICAL PROVISIONS FOR LINKED LIABILITIES	17	534,397	139,915	332,583	126,345
PROVISIONS FOR OTHER RISKS AND CHARGES					
Provision for taxation	19	-	663	-	-
Other provisions	20	1,532	1,532	2,123	2,123
		1,532	2,195	2,123	2,123
CREDITORS					
Creditors arising out of direct insurance operations		4,304	612	981	623
Creditors arising out of reinsurance operations		149	83	160	68
Due to group undertakings		-	103	-	123
Other creditors including taxation and social security	21	1,934	147	544	192
		6,387	945	1,685	1,006
ACCRUALS AND DEFERRED INCOME		1,880	671	2,487	354
TOTAL LIABILITIES		783,555	233,686	490,911	211,478

The notes to pages 16 to 38 form an integral part of these financial statements.

The financial statements were approved by the board of directors on 11 March 2004 and were signed on its behalf by



P E Oldham
Chairman



L M Etheridge
Director

Notes to the Accounts

at 31 December 2003

1. Accounting Policies

Basis of presentation

The consolidated accounts are prepared on the historical cost basis, modified by the revaluation of investments, and 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 complied with 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. The results of Criterion Life Assurance Limited and Internet Life Assurance Limited are included in the consolidated results from 10 October 2003, the date of acquisition. On acquisition all the assets and liabilities at the date of acquisition are recorded at their fair values. As permitted by Section 230 of the Companies Act 1985, no profit and loss account of the parent Society is presented.

Financial Reporting Standard 17 – Retirement Benefits

The transitional disclosures required under FRS 17 – Retirement Benefits have been presented in Note 23. These disclosures are presented in addition to those required under the existing standard. The full provisions of FRS 17 are not required to be implemented until the 2005 year end.

Premiums

Premiums, including reinsurance premiums, and considerations for annuities are accounted for when due for payment except for unit-linked premiums, which are accounted for when 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 return

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. Movements in unrealised gains and losses on investments represent the difference between the value at the balance sheet date and original cost, or, if assets have previously been revalued, the value at the previous balance sheet date; together with the reversal of unrealised gains and losses previously recognised on asset disposals in the period. All gains and losses are reported in the technical account.

Investments

Investment properties are valued by the directors at the balance sheet date on an open market sale value basis.

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

Assets held to cover the technical provision for linked liabilities are valued consistently with the method of valuation of the liabilities. Depending on the individual internal linked fund, assets are valued at either bid price less selling expenses or 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.

Other listed investments are valued at mid market price excluding accrued income on fixed interest holdings. Unit trust holdings are valued at bid price and mortgages, loans and deposits are stated at par.

Investment Properties

Under the Companies Act 1985, land and buildings are required to be depreciated over their expected useful economic lives. In respect of investment properties, this requirement conflicts with the generally accepted accounting principle set out in SSAP19, that no depreciation should be provided in respect of such investments. The directors consider that to depreciate investment properties would not give a true and fair view and accordingly the provisions of SSAP19 have been adopted. Depreciation is only one of the factors reflected in the annual valuations and the amounts which might otherwise have been shown cannot reasonably be separately identified and quantified.

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.
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.

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 Financial Services Authority rules 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.

Taxation

Tax is charged or credited on all taxable profits or losses arising for the accounting period. The taxation charge or credit is based on a method of assessing taxation for the long-term fund.

Deferred taxation

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise and discounted to take into account the likely timing of payments and the pattern of the expected realisation of investments. Deferred tax balances are similarly discounted. Deferred tax is recognised in the profit and loss account for the period. Deferred tax in respect of unrealised gains on assets held to cover linked liabilities are included within assets held to cover linked liabilities.

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. Note 23 deals with reporting of pension scheme assets and liabilities under Financial Reporting Standard 17.

Goodwill

Goodwill arising on consolidation is capitalised in the balance sheet at cost and amortised through the profit and loss account on a straight line basis over a period of fifteen years.

2. Gross Premiums Written

All business is in respect of continuing operations and relates solely to long-term insurance contracts.

Acquisitions

	2003 £000	2002 £000
Premiums written comprise:		
Direct insurance	29,042	-
Reinsurance outward	(1,579)	-
	<hr/>	<hr/>
	27,463	-
	<hr/>	<hr/>

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

Periodic premiums	726	-
Single premiums	28,316	-
	<hr/>	<hr/>
	29,042	-
	<hr/>	<hr/>
Ordinary branch life insurance	5,013	-
Pensions	24,027	-
Sickness and disability contracts	2	-
	<hr/>	<hr/>
	29,042	-
	<hr/>	<hr/>
Investment linked contracts	23,978	-
Non linked contracts	5,064	-
	<hr/>	<hr/>
	29,042	-
	<hr/>	<hr/>
Geographical analysis		
United Kingdom	24,818	-
Germany	3,255	-
Finland	14	-
Italy	955	-
	<hr/>	<hr/>
	29,042	-
	<hr/>	<hr/>

Other continuing operations

2003	2002
£000	£000

Gross premiums written comprise:

Direct insurance	71,770	57,880
Reinsurance inward	1	4
Reinsurance outward	4,998	(1,389)
	<hr/>	<hr/>
	76,769	56,495
	<hr/>	<hr/>

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

Periodic premiums	20,566	23,672
Single premiums	51,204	34,208
	<hr/>	<hr/>

71,770	57,880
--------	--------

Industrial branch life insurance	246	283
Ordinary branch life insurance	16,182	15,509
Pensions	55,233	41,955
Sickness and disability contracts	109	133
	<hr/>	<hr/>

71,770	57,880
--------	--------

Investment linked contracts	23,899	26,117
Non linked contracts	47,871	31,763
	<hr/>	<hr/>

71,770	57,880
--------	--------

Geographical analysis

United Kingdom	71,770	57,880
	<hr/>	<hr/>

New business premiums

No material amounts of business were reinsured other than on a risk premium basis. No new inwards reinsurance was accepted.

	2003 £000	2002 £000
Periodic premiums:		
Ordinary branch life insurance		
Investment linked contracts	13	4
Non-linked contracts	42	-
Pensions business		
Investment linked contracts	3	37
Non-linked contracts	22	
	<u>80</u>	<u>41</u>
Single premiums:		
Ordinary branch life insurance		
Investment linked contracts	10	40
Non-linked contracts	7,022	-
Pensions business		
Investment linked contracts	29,844	5,217
Non linked contracts	42,644	28,945
	<u>79,520</u>	<u>34,202</u>

3. Investment Return

	2003 £000	2002 £000
Investment income:		
Income from land and buildings	(2)	53
Income from listed investments	20,899	17,100
Income from other investments	2,050	2,531
Net gains on realisation of investments	-	4,976
	<u>22,947</u>	<u>24,660</u>
Value readjustments on investments (see note 6)	(11)	(9)
Net losses on realisation of investments (see note 6)	<u>(636)</u>	<u>-</u>
	22,300	24,651
Unrealised gains on investments	62,003	-
Unrealised losses on investments	-	(87,226)
Investment expenses (see note 6)	(270)	(234)
	<u>84,033</u>	<u>(62,809)</u>

4. Other Technical Income and Charges

These relate to the profits or losses after taxation of The Reliance Fire and Accident Insurance Corporation Limited and Reliance Unit Managers Limited, which do not carry on long-term business, and the net items of income and expenditure from the non-technical accounts of The British Life Office Limited and Criterion Life Assurance Limited.

	2003 £000	2002 £000
a) Other technical income		
The British Life Office Limited	312	6
Reliance Unit Managers Limited	204	273
	<hr/>	<hr/>
	516	279
	<hr/>	<hr/>
b) Other technical charges		
The Reliance Fire and Accident Insurance Corporation Limited	22	227
Criterion Life Assurance Limited	19	-
	<hr/>	<hr/>
	41	227
	<hr/>	<hr/>

The results for The Reliance Fire and Accident Insurance Corporation Limited include the movement in the provision for outstanding claims in respect of that company.

5. Net Operating Expenses

	2003 £000	2002 £000
Acquisition costs	7,049	726
Change in deferred acquisition costs	314	499
Administrative expenses	3,231	1,508
Reinsurance commissions and profit participation	58	169
	<hr/>	<hr/>
	10,652	2,902
	<hr/>	<hr/>

Included within administrative expenses are:

Office relocation costs	-	8
Costs in connection with closure of Criterion office premises	503	-
Pension Review costs	543	(177)
Auditors' fees for audit services	336	123
Auditors' fees for non-audit services	10	-
Depreciation of tangible assets	27	46
Operating lease rentals	188	188

In both 2003 and 2002, the Society paid the audit fees for the whole group.

6. Investment Expenses and Charges

	2003 £000	2002 £000
Investment Expenses	270	234
Value readjustments on investments	11	9
Net losses on realisation of investments	636	-
	—	—
	917	243
	—	—

7. Employee Information

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

	2003	2002
Management	5	5
Administration	81	78
Home Service field force	27	29
	—	—
	113	112
	—	—
Staff costs for the above totalled:	£000	£000
Wages and Salaries	2,118	1,886
Social Security costs	161	148
Other Pension costs	292	-
	—	—
	2,571	2,034
	—	—

8. Directors' Emoluments

	2003 £000	2002 £000
Total directors' emoluments	188	178

In 2003 and 2002 retirement benefits accrued to one director in respect of qualifying service in the group's defined benefit pension scheme.

9. Taxation

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

	2003 £000	2002 £000
UK Corporation Tax at 23.1% (2002 – 20.6%)	86	918
Deferred taxation within technical provision for linked liabilities	4,637	(3,765)
Other deferred taxation (see note 19)	(1,813)	(3,104)
Adjustments in respect of prior periods	92	5
	<u>3,002</u>	<u>(5,946)</u>

10. Fund for Future Appropriations

	2003		2002	
	Group £000	Society £000	Group £000	Society £000
Balance at 1 January	29,260	29,260	32,491	32,491
Acquisition during the year	4,655	-	-	-
Transfer from Profit and Loss account	9,078	9,687	(3,231)	(3,231)
	<u>42,993</u>	<u>38,947</u>	<u>29,260</u>	<u>29,260</u>

11. Land and Buildings

All land and buildings were owned throughout 2003 and 2002 by the parent Society.

	2003		2002	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Other freehold property	-	-	10	-
	<u>-</u>	<u>-</u>	<u>10</u>	<u>-</u>

12. Group Undertakings

At the balance sheet date the Society held 100% of the issued share capital of the following companies, with the exception of The Reliance Fire and Accident Insurance Corporation Limited where the Society held 99.99% of the issued share capital.

	2003		2002	
	Net Asset Value £000	Cost £000	Net Asset Value £000	Cost £000
The British Life Office Limited	16,937	30,000	7,840	30,000
The Reliance Fire and Accident Insurance Corporation Limited	439	1,000	461	1,000
Reliance Unit Managers Limited	304	50	375	50
Reliance Pension Scheme Trustee Limited	-	-	-	-
Reliance ISA Managers Limited	100	100	100	100
Criterion Life Assurance Limited	5,761	6,198	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	23,541	37,348	8,776	31,150
	<hr/>	<hr/>	<hr/>	<hr/>

On 10 October 2003, Criterion Life Assurance Limited was acquired by the Society (see note 22).

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	Non-trading
Criterion Life Assurance Limited	England	Long-term insurance

Criterion Life Assurance holds 100% of the issued share capital of Internet Life Assurance Limited, a company incorporated in England that does not trade.

13. Other Financial Investments

a) Group Balance Sheet

	2003		2002	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Shares and other variable yield securities and units in unit trusts	54,156	43,809	24,864	19,331
Debt securities and other fixed income securities	158,609	156,469	103,749	98,556
Loans secured by mortgages	569	569	560	560
Other loans	1,439	1,458	802	802
Deposits with credit institutions	11,565	11,565	17,197	17,197
	<u>226,338</u>	<u>213,870</u>	<u>147,172</u>	<u>136,446</u>

b) Society Balance Sheet

	2003		2002	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Shares and other variable yield securities and units in unit trusts	29,993	19,577	23,615	17,478
Debt securities and other fixed income securities	29,214	28,482	38,277	36,376
Loans secured by mortgages	416	416	560	560
Other loans	846	846	802	802
Deposits with credit institutions	2,449	2,449	5,171	5,171
	<u>62,918</u>	<u>51,770</u>	<u>68,425</u>	<u>60,387</u>

c) Analysis of market values of other financial investments

	2003		2002	
	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	48,399	25,820	21,263	21,154
Other listed investments	5,757	4,173	3,601	2,461
	<u>54,156</u>	<u>29,993</u>	<u>24,864</u>	<u>23,615</u>
Debt securities and other fixed income securities				
Listed on a recognised investment exchange	144,900	29,214	103,749	38,277
Other listed investments	13,709	-	-	-
	<u>158,609</u>	<u>29,214</u>	<u>103,749</u>	<u>38,277</u>

14. Goodwill

	2003
	£000
<u>Cost</u>	
At 1 January 2003	-
Acquisition during year	(585)
	<hr/>
At 31 December 2003	(585)
	<hr/>
<u>Amortisation</u>	
At 1 January 2003	-
Amortisation during year	-
	<hr/>
At 31 December 2003	-
	<hr/>
Net book value at 31 December 2003	(585)
	<hr/>
Net book value at 31 December 2002	-
	<hr/>

The present value of goodwill arising on the acquisition of Criterion Life Assurance Limited is being amortised on a straight line basis over fifteen years.

15. Assets held to cover linked liabilities

a. Group Balance Sheet

	2003		2002	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Assets held to cover linked liabilities	534,397	522,685	324,034	353,602
	<hr/>	<hr/>	<hr/>	<hr/>

b. Society Balance Sheet

	2003		2002	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Assets held to cover linked liabilities	139,458	106,629	117,337	112,224
	<hr/>	<hr/>	<hr/>	<hr/>

16. Long Term Business Provision

	2003		2002	
	Group £000	Society £000	Group £000	Society £000
Gross amount				
Mathematical reserves, before bonus	190,659	45,519	116,622	47,349
Cost of bonus added at year end	415	415	448	448
Zillmer adjustment	557	557	501	501
Resilience reserve	(1,350)	-	(340)	-
Long term business provision	190,281	46,491	117,231	48,298
Reinsurance				
Mathematical reserves, before bonus	7,202	3,918	3,988	4,313
Cost of bonus added at year end	-	-	-	-
Zillmer adjustment	180	180	88	88
Long term business provision	7,382	4,098	4,076	4,401
Net amounts				
Mathematical reserves, before bonus	183,457	41,601	112,634	43,036
Cost of bonus added at year end	415	415	448	448
Zillmer adjustment	377	377	413	413
Resilience reserves	(1,350)	-	(340)	-
Long term business provision	182,899	42,393	113,155	43,897

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

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

		Mortality (ultimate tables)	Interest	
Ordinary Branch			2003	2002
-	with profit insurances	A92	2.45%	2.35%
-	without profit insurances	A92	3.20%	3.10%
-	life annuities in payment	I92	3.84%	3.52%
-	pension annuities for smokers	PA92	4.80%	4.90%
-	other pension annuities	PA92	4.80%	4.40%
-	pension without profit insurances	A92	4.00%	3.88%
Industrial Branch				
-	with profit insurances	ELT15	2.45%	2.35%
-	mortuary bonus insurances	ELT15	2.83%	2.73%
-	without profit insurances	ELT15	3.20%	3.10%

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. For smoker annuities 140% of the published rates is used to reflect shorter life expectancies.

17. Technical Provisions

	Long Term Business Provision £000	Claims Outstanding £000	Technical Provisions for Linked Liabilities £000
a. <u>Group Balance Sheet</u>			
Gross technical provisions			
Balance at 1 January 2003	117,231	5,542	332,583
Movement for the year			
Continuing operations	32,792	468	53,391
On acquisition	40,258	75	148,423
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2003	190,281	6,085	534,397
	<hr/>	<hr/>	<hr/>
Reinsurers' Share			
Balance at 1 January 2003	4,076	608	8,549
Movement for the year			
Continuing operations	(247)	71	(8,549)
On acquisition	3,553	-	-
	<hr/>	<hr/>	<hr/>
	7,382	679	-
	<hr/>	<hr/>	<hr/>
Net technical provisions			
Balance at 31 December 2003	182,899	5,406	534,397
	<hr/>	<hr/>	<hr/>
Balance at 1 January 2003	113,155	4,934	324,034
	<hr/>	<hr/>	<hr/>

The change in the long term business provision and the technical provision for linked liabilities shown in the profit and loss account on pages 12 and 13 comprise the above movements together with amounts relating to the release of the pensions provision held by the Society (see note 20).

	Long Term Business Provision £000	Claims Outstanding £000	Technical Provisions for Linked Liabilities £000
b. Society Balance Sheet			
Gross technical provisions			
Balance at 1 January 2003	48,298	4,092	126,345
Movement for the year	(1,807)	430	13,570
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2003	46,491	4,522	139,915
	<hr/>	<hr/>	<hr/>
Reinsurers' Share			
Balance at 1 January 2003	4,401	150	9,008
Movement for the year	(303)	(121)	(8,551)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2003	4,098	29	457
	<hr/>	<hr/>	<hr/>
Net technical provisions			
Balance at 31 December 2003	42,393	4,493	139,458
	<hr/>	<hr/>	<hr/>
Balance at 1 January 2003	43,897	3,942	117,337
	<hr/>	<hr/>	<hr/>

18. Tangible Assets

In 2003 and 2002 all tangible fixed assets were owned by the parent Society.

	Computer Hardware £000	Office Equipment £000	Total £000
Cost:			
Brought forward	210	102	312
Additions	13	10	23
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 December 2003	223	112	335
	<hr/>	<hr/>	<hr/>
Depreciation:			
Brought forward	201	65	266
Disposals	-	-	-
Charge for the year	12	15	27
	<hr/>	<hr/>	<hr/>
At 31 December 2003	213	80	293
	<hr/>	<hr/>	<hr/>
Book value at 31 December 2003	10	32	42
	<hr/>	<hr/>	<hr/>
Book value at 31 December 2002	9	37	46
	<hr/>	<hr/>	<hr/>

19. Deferred Taxation

	Group £000	Society £000
At 1 January 2003	117	117
Profit and loss account charge (credit) (see note 9)	1,813	(780)
	—	—
At 31 December 2003	1,930	(663)
	—	—

The deferred tax asset/(provision) within the financial statements is made up as follows:

	Group		Society	
	2003 £000	2002 £000	2003 £000	2002 £000
Deferred taxation on:				
Trading losses	2,593	-	-	-
Unrealised gains on investments	(1,304)	(594)	(1,304)	(594)
Unrelieved expenses	926	1,051	926	1,051
Deferred acquisition costs	(285)	(340)	(285)	(340)
	—	—	—	—
	1,930	117	(663)	117
	—	—	—	—

At 31 December 2003 deferred tax assets totalling £1.488m (2002 - £3.898m) have not been recognised in the Society's balance sheet because there are no foreseeable future gains against which the losses giving rise to the asset can be offset. In addition deferred tax assets totalling £0.5m (2002 - £3.715m) in The British Life Office Limited and £3.077m in Criterion Life Assurance Limited have not been recognised as there are no foreseeable future profits against which the losses can be offset. There are no deferred tax assets unrecognised in respect of trading losses in The British Life Office Limited (2002 - £4.320m).

20. Provisions for Other Risks and Charges

With the exception of the deferred taxation provision (see note 19), all provisions are held within the Society's balance sheet.

	Former Branch Offices £000	Pension Transfers & Opt-outs £000	Total £000
Provision at 1 January 2003	1,623	500	2,123
Costs charged against provision	(291)	(300)	(591)
	—	—	—
Provision at 31 December 2003	1,332	200	1,532
	—	—	—

The provision for future expenses on closed branch offices is stated after offsetting projected income from subletting some of the properties. For further details see note 24.

The provision for future costs relating to the review of pension transfers and opt-outs has been determined taking into account guidance issued by the Regulator and the experience of redress payments made. The directors, taking into account available information, have made reasonable estimates of the provision. The provision for future costs is held in the Society's balance sheet although it is anticipated that costs relating to the provision will arise in The British Life Office Limited, a subsidiary company. The Society has given The British Life Office an undertaking that it will, if necessary, provide The British Life Office Limited with sufficient additional finance, up to the amount of the provision to meet any costs arising.

21. Other Creditors including taxation and social security

	2003		2002	
	Group £000	Society £000	Group £000	Society £000
Taxation and Social Security	260	62	202	57
Other creditors	1,674	85	342	135
	—	—	—	—
	1,934	147	544	192
	—	—	—	—

22. Acquisitions

On 10 October 2003 the Society acquired the whole of the issued share capital of Criterion Life Assurance Limited for a cash consideration of £6.2m. Criterion Life Assurance transacts life assurance and pensions business.

The Group has used acquisition accounting to account for the purchase. The following table summarises the assets and liabilities acquired, together with the fair value adjustments to net assets.

	Book Value before acquisition £000	Accounting policy realignment £000	Fair value to group £000
Investments	48,338		48,338
Assets held to cover linked liabilities	121,152		121,152
Other assets	7,584		7,584
Long term business provision and claims outstanding	(39,686)	245	(39,441)
Technical provision for linked liabilities	(121,152)		(121,152)
Fund for future appropriations	(4,655)		(4,655)
Other liabilities	(5,043)		(5,043)
	—	—	—
Net assets acquired	6,538	245	6,783
	—	—	—
Cash consideration (including £0.2m acquisition costs)			6,198
			—
Goodwill			(585)
			—

The accounting policy realignment relates to £0.395m maturity guarantee and other contingency provisions that were added to mathematical reserves to bring the accounting policy into line with Reliance Mutual. This is offset by the elimination of £0.640m closure reserves that were previously included in the mathematical reserves in determining the long-term business provision.

In its last financial year to 30 June 2003, Criterion Life Assurance Limited made a profit after tax of £1.784m. For the period from that date to the effective date of acquisition, the summarised profit and loss account for Criterion Life Assurance Limited is set out below:

	From 1 July to 9 October 2003 £000
Long term business technical account	
Gross written premiums	23,180
	<hr/>
Non technical account	
Profit before and after tax	926
	<hr/>

Criterion Life Assurance Limited had no recognised gains or losses other than the profit for the period.

The consolidated Profit and Loss account for the year is summarised as follows:

	Acquisitions £000	Other Continuing Operations £000	Total £000
Earned premiums, net of reinsurance	27,463	76,769	104,232
Investment income	1,396	21,551	22,947
Unrealised gains on investments	5,238	56,765	62,003
Other technical income	-	516	516
Claims incurred, net of reinsurance	(3,208)	(40,366)	(43,574)
Change in other technical provisions, net of reinsurance	(27,823)	(94,611)	(122,434)
Net operating expenses	(4,020)	(6,632)	(10,652)
Investment expenses and charges	-	(917)	(917)
Tax attributable to the long-term business	(73)	(2,929)	(3,002)
Other technical charges	(19)	(22)	(41)
Transfers to the fund for future appropriations	24	(9,102)	(9,078)
	<hr/>	<hr/>	<hr/>
Balance on the long-term business technical account	(1,022)	1,022	0
	<hr/>	<hr/>	<hr/>

23. 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 2001 using the attained age method with the following assumptions:

Valuation rate of interest - before vesting	6.50% p.a.
- after vesting	5.50% p.a.
Earnings inflation excluding promotional increases	4.50% p.a.
Rate of increase in retail price index	2.50% p.a.

At the valuation date the market value of the scheme's assets was £29.5m. The ongoing contribution rate determined by the funding method was 25.3% of pensionable salaries of current active members. The scheme was funded at a level of 136% of the value of liabilities.

Included within administrative expenses is a net charge in respect of pension costs of £242,590 (2002 - £105,000). There is a pension accrual of £242,590 (2002 £105,000) included in both the group and society balance sheet.

FRS 17 ~ Retirement benefits

Under the transitional arrangements of Financial Reporting Standard 17 "Retirement Benefits" the group continues to account for pension costs in accordance with Statement of Accounting Practice 24, but the following additional disclosures are required.

The majority of the Society's employees are members of Reliance Pension Scheme. During the year ended 31 December 2003 the Society made contributions of £285,058 (2002 - Nil). Since the scheme is now accepting few new members and the age profile of the active members is increasing, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

The last full valuation of the scheme was carried out as at 1 April 2001 and this was updated to 31 December 2001, 1 October 2002, 31 December 2002 and 31 December 2003 by the Actuary to the scheme.

Assumptions

The principal assumptions used in the updated valuation were as follows:

At 31 December	2003 %	2002 %	2001 %
Rates of inflation	2.8	2.3	2.6
Rates of salary increases (inflation and promotion)	5.8	5.3	5.6
Rate of increase for pension in payment (non-GMP)	2.8	2.3	1.9 & 2.6
Rate of increase for deferred pensions in deferment (non-GMP)	2.8	2.3	2.6
Discount rate	5.3	5.3	5.8

The assets of the scheme and the expected rates of return are summarised as follows:

At 31 December	Fair Value 2003 £000	Expected long-term rate of return 2003 £000	Fair Value 2002 £000	Expected long-term rate of return 2002 £000	Fair Value 2001 £000	Expected long-term rate of return 2001 £000
Market value of scheme assets:						
Equities	9,434	7.8	7,466	7.9	13,851	6.25
UK Government Fixed interest securities	8,496	4.4	6,539	4.1	3,485	4.65
Corporate bonds (inc. overseas bonds)	5,730		6,939	4.6	3,302	5.45
	3,210	4.9				
Property	314	7.3	3,125	7.4	1,586	5.75
Other	—	3.5	1,696	3.5	5,065	4.00
Total fair value of scheme assets	27,184		25,765		27,289	

If the accounting requirements of FRS 17 applied in full in 2003, the following items would have been reported in the Group's financial statements:

	2003 £000	2002 £000
<u>Impact on Profit and Loss Account</u>		
Investment income:		
Expected return on pension scheme assets	1,468	1,502
Interest cost of pension scheme liabilities	(1,330)	(1,260)
Total	138	242
Pension cost:		
Current service cost	453	385
Past service costs	-	1,385
Total	453	1,770
<u>Impact on Fund for Future Appropriations</u>		
Actual return less expected return on pension scheme assets	(729)	(2,181)
Experience gains and losses arising on scheme liabilities	77	(185)
Effect of changes in demographic and financial assumptions	2,355	(1,118)
Actuarial gain/(losses) recognised	1,703	(3,484)
Deferred tax thereon	(341)	718
Amount that would be recognised in the Fund for Future Appropriations	1,362	(2,766)

The experience gains and losses that would have been recognised in the Fund for Future Appropriations can also be interpreted as follows:

	2003 £000	2002 £000
Actual return less expected return on pension scheme assets: Percentage of scheme assets at balance sheet date: 2.7% (2002 – 8.5%)	729	(2,181)
Experience gains and losses arising on scheme liabilities: Percentage of scheme liabilities at balance sheet date: 0.3% (2002 – 0.7%)	(77)	(185)
Total amount recognised in the Fund for Future Appropriations: Percentage of scheme liabilities at balance sheet date: 6.0% (2002 – 11.0%)	(1,703)	(2,766)

Impact on Balance Sheet

	2003 £000	2002 £000
Market value of assets	27,184	25,765
Present value of scheme liabilities	28,351	25,089
	—	—
(Deficit)/surplus in the scheme	(1,167)	676
Related deferred tax provision	233	(139)
	—	—
Net pension asset	(934)	537
	—	—

If these amounts had been recognised in the financial statements, the group's total assets and fund for future appropriations would have been as follows:

	2003 £000	2002 £000
Total Assets:		
Excluding pension asset	783,555	490,911
Pension asset	(934)	537
	—	—
Including pension asset	782,621	491,448
	—	—
Fund for Future Appropriations, excluding pension asset	42,993	29,260
Pension asset	(934)	537
	—	—
Including pension asset	42,059	29,797
	—	—

The movements in the deficit/surplus in the scheme over the year have been as follows:

	2003 £000	2002 £000
Surplus at beginning of year	676	5,566
Expected return on pension scheme assets	1,468	1,502
Interest cost of pension scheme liabilities	(1,330)	(1,260)
Current service costs	(453)	(385)
Contributions	175	122
Past service costs	-	(1,385)
Actuarial losses	(1,703)	(3,484)
	<hr/>	<hr/>
(Deficit)/Surplus at end of year	(1,167)	676
	<hr/>	<hr/>

24. **Contingent Liabilities and Other Commitments**

At 31 December 2003 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. There are seven (2002 - eight) such leases expiring between 2008 and 2015. The total estimated liabilities in respect of these leases amounts to £3.0m (2002 - £3.7m). A provision in respect of future liabilities, after offsetting projected income from subleases on some of the properties, is held as described in note 20 above.

25. **Operating Lease Commitments**

The Society has operating lease commitments in respect of its head office premises. The annual commitment under non-cancellable leases is as follows:

	2003 £000	2002 £000
Expiring within 1 to 3 years	188	188

26. Transactions with Related Parties

The Society has taken advantage of the exemption within Financial Reporting Standard 8 – Related Party Transactions not to disclose transactions and year end balances with its subsidiaries, all of which are greater than 90% owned.

During the period the Society and its subsidiaries invested in The British Life Unit Trust, which is managed by Reliance Unit Managers Limited, a group company. Transactions and year end balances of holdings in the Trust were:

	2003		2002	
	No of Units 000	Unit Value £000	No of Units 000	Unit Value £000
a. <u>Group holdings</u>				
Units purchased	3,000	10,169	86	309
Units sold	101	363	1,930	8,846
Holding at 31 December	<u>49,147</u>	<u>193,100</u>	<u>46,248</u>	<u>163,483</u>
b. <u>Society holdings</u>				
Units purchased	2,542	8,488	-	-
Units sold	183	678	1,753	7,894
Holding at 31 December	<u>19,504</u>	<u>76,633</u>	<u>17,145</u>	<u>60,608</u>

Mrs B M O'Driscoll, a director of Reliance Pension Scheme Trustee Limited had a loan from the Society for the purpose of car purchase throughout the year. The maximum sum outstanding during the year was £4,861 (2002 - £7,777) and the amount outstanding at the balance sheet date was £1,944 (2002 - £4,861). Interest was charged at 3.75% p.a., the same rate as available to other members of staff.

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

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

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 £15,007 (2002 - £2,848).

There were no other transactions between group companies and related parties during the year.