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Report and Group Accounts

31 December 2002



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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  
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

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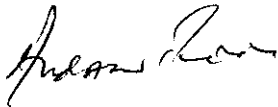
**RELIANCE MUTUAL INSURANCE SOCIETY LIMITED**

**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 The Great Hall, Mount Pleasant Road, Tunbridge Wells, Kent on Thursday 15 May 2003 at 12.30 p.m. for the following purposes:

1. To consider the Directors' Report and Financial Statements for the year ended 31 December 2002 and the Auditors' Report thereon.
2. To elect Directors. Mr L M Etheridge 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

13 March 2003

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**

The Company has largely achieved the objectives determined in 2000, allowing us to complete the transition from a business dependent on a tied sales force to a cost-effective organisation able to take advantage of the opportunities available in a rapidly changing market.

In April 2002 we completed the sale of our former Head Office, Reliance House. The Pensions and FSAVC reviews achieved the FSA targets for completion.

**New Business**

A number of new projects have been investigated during the year, including product development in association with other companies.

The smoker annuity contract, launched in September 2001, has been well received. In May we extended our range of Independent Financial Advisers by putting the rates on The Exchange and, as a result, a significant increase in sales occurred.

New business for 2002 was 238% up on 2001 reflecting the return to active sales of products offered by the Group. Despite this increase costs have not increased significantly and our expenditure remains under tight control.

In January this year we have started to write credit life business in the United Kingdom, a promising area for development. We look forward to continuing to develop our sales in this, and other business, in partnership with other organisations throughout 2003 and achieving further significant growth.

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## **Investment**

Global equity markets have declined for the third year in succession with the FTSE All Share index in the UK falling by 25%. Bonds significantly out-performed equities with the FT UK Gilts over 15 years total index rising by 9.9%. Our cautious approach to equities in our non-linked assets has again proved appropriate.

The unit-linked life equity and managed funds have fallen over the year but relative performance was first quartile. In the pension unit linked category the equity and managed funds were second quartile and first quartile respectively.

## **Staff**

The last three years have seen a major change for our staff following the closure of our Direct Sales and Appointed Representative divisions and the move from Reliance House to The Great Hall. The launch of new projects has added substantial further challenges for staff and I, once again, thank them for their dedication and hard work which has enabled the company to make substantial progress.

## **The Future**

In January this year the Board met to consider the appropriate strategy for the future. The financial problems facing some life companies have been well documented in the press. Our strong financial position enables us to promote new projects, at a time when other companies are being forced to make cutbacks in order to protect their own financial position. We plan to take advantage of this opportunity to expand our business into profitable new lines.

Fundamental to our ambitions, however, is the requirement to ensure that our existing with-profit policyholders get their full entitlement. The high levels of policy payouts to these policyholders show how effectively this is being achieved.

Reliance can face the future with cautious optimism, based on financial strength, rising sales, new products and strict control of costs.



**P E Oldham**  
**Chairman**

13 March 2003

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**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 2002.

**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**

The group's smoker annuity product, underwritten by The British Life Office Limited proved very successful and attracted £25.6m 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. Overall new business of £41,000 (2001 - £81,000) regular premiums and £34.2m (2001 - £6.5m) single premiums were written. Using the industry standard measure of regular premium plus one-tenth of single premiums this represents an increase of 238% over 2001.

Stock market values fell markedly during the year, with the FTSE All Share Index finishing 25% below its opening value. Yields on fixed interest securities fell slightly leading to increases in market values. Overall the market value of investments fell by 10% to £471.6m.

During the year the group continued to make payments to, and augment the value of policies belonging to clients as a result of the reviews of pension transfers and opt-outs and free standing AVC policies. The cost of these additional benefits has been provided in the financial statements in previous years. A provision of £0.5m has been established to meet future payments resulting from the pensions review. Decommissioning the review is now under way.

The Society continues to have commitments with regard to property leases on former branch office premises. A provision of £1.6m has been established to meet future payments under the remaining eight leases. The amount is determined with regard to income expected from subtenants.

On 13 December 2002 the Society took up £5m ordinary shares at par in its subsidiary, The British Life Office Limited. This provided British Life with additional funding to finance the new business being written.

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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 2002 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 Etheridge 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 for the 2002/3 scheme year.

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### **Political and Charitable Contributions**

No political contributions were made during the year. Charitable contributions totalled £867 (2001 - £1,010).

### **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.

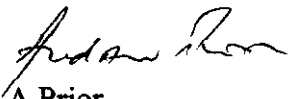
The directors confirm that the financial statements comply with these requirements.

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**

On 9 September 2002, PricewaterhouseCoopers were appointed auditors of the Company to replace Baker Tilly who resigned as the Company's auditors. Following the conversion of PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 13 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board



A Prior  
Secretary

13 March 2003



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## **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.

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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 2002 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

13 March 2003

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## Bonus Declaration as at 31 December 2002

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 2002.

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 2003 and 31 December 2003. 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<br>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 2002

|  | Notes | 2002<br>£000       | 2001<br>£000 |
|--|-------|--------------------|--------------|
| Technical Account - Long Term Business |       |                    |              |
| TECHNICAL INCOME                       |       |                    |              |
| Gross premiums written                 | 2     | 57,884             | 36,427       |
| Outward reinsurance premiums           |       | (1,389)            | (814)        |
|  |       | <hr/>              | <hr/>        |
| Earned premiums, net of reinsurance    |       | 56,495             | 35,613       |
| Investment income                      | 3     | 24,660             | 24,399       |
| Other technical income                 | 4     | 279                | 474          |
|  |       | <hr/>              | <hr/>        |
|  |       | 81,434             | 60,486       |
|  |       | <hr/>              | <hr/>        |
| CLAIMS INCURRED                        |       |                    |              |
| Claims paid                            | -     |                    |              |
|  | -     | gross amount       | (45,139)     |
|  | -     | reinsurers' share  | (46,748)     |
|  |       | 2,218              | 1,587        |
|  |       | <hr/>              | <hr/>        |
|  | -     | net of reinsurance | (42,921)     |
|  |       | <hr/>              | <hr/>        |
| Change in provision for claims         |       |                    |              |
|  | -     | gross amount       | 603          |
|  | -     | reinsurers' share  | 197          |
|  |       | (79)               | (104)        |
|  |       | <hr/>              | <hr/>        |
|  | -     | net of reinsurance | 524          |
|  |       | <hr/>              | <hr/>        |
| Total claims incurred                  |       | (42,397)           | (45,068)     |

**Consolidated Profit and Loss Account**  
for the year ended 31 December 2002

|  | Notes | 2002<br>£000      | 2001<br>£000      |
|--|-------|-------------------|-------------------|
| <b>CHANGE IN OTHER TECHNICAL PROVISIONS</b>          |       |                   |                   |
| Long term business provision                         |       |                   |                   |
| - gross amount                                       | 16    | (34,155)          | (2,398)           |
| - reinsurers' share                                  |       | 1,557             | 604               |
|  |       | <u>          </u> | <u>          </u> |
| - net of reinsurance                                 |       | (32,598)          | (1,794)           |
| Provision for linked liabilities, net of reinsurance | 16    | 74,982            | 72,596            |
|  |       | <u>          </u> | <u>          </u> |
|  |       | <u>42,384</u>     | <u>70,802</u>     |
| <b>TECHNICAL CHARGES</b>                             |       |                   |                   |
| Net operating expenses                               | 5     | (2,902)           | (5,032)           |
| Investment expenses and charges                      | 6     | (243)             | (214)             |
| Unrealised losses on investments                     | 3     | (87,226)          | (82,725)          |
| Other technical charges                              | 4     | (227)             | -                 |
| Tax attributable to long term business               | 9     | 5,946             | 4,603             |
| Transfer from/(to) fund for future appropriations    | 10    | 3,231             | (2,852)           |
|  |       | <u>          </u> | <u>          </u> |
|  |       | <u>(81,421)</u>   | <u>(86,220)</u>   |
| <b>BALANCE on technical account</b>                  |       | <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 36 form an integral part of these accounts.

**Balance Sheets**  
at 31 December 2002

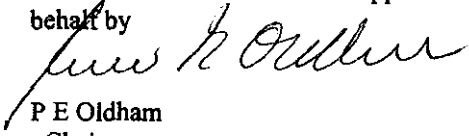
|  | Notes | 2002           |                 | 2001           |                 |
|--|-------|----------------|-----------------|----------------|-----------------|
|  |       | Group<br>£000  | Society<br>£000 | Group<br>£000  | Society<br>£000 |
| <b>Assets</b>                                      |       |                |                 |                |                 |
| <b>INVESTMENTS</b>                                 |       |                |                 |                |                 |
| Land and buildings                                 | 11    | 10             | 10              | 4,714          | 4,714           |
| Investments in group undertakings                  | 12    | -              | 8,776           | -              | 6,623           |
| Other financial investments                        | 13    | 147,172        | 68,425          | 118,756        | 74,816          |
|  |       | <u>147,182</u> | <u>77,211</u>   | <u>123,470</u> | <u>86,153</u>   |
| <b>ASSETS HELD TO COVER LINKED LIABILITIES</b>     |       |                |                 |                |                 |
|  | 14    | 324,034        | 117,337         | 397,683        | 138,928         |
| <b>REINSURERS' SHARE OF TECHNICAL PROVISIONS</b>   |       |                |                 |                |                 |
| Long term business provision                       | 15    | 4,076          | 4,401           | 2,519          | 3,036           |
| Claims outstanding                                 | 16    | 608            | 150             | 1,158          | 229             |
| Technical provision for linked liabilities         | 16    | 8,549          | 9,008           | 12,647         | 13,245          |
|  |       | <u>13,233</u>  | <u>13,559</u>   | <u>16,324</u>  | <u>16,510</u>   |
| <b>DEBTORS</b>                                     |       |                |                 |                |                 |
| Debtors arising out of direct insurance operations |       | 268            | 25              | 294            | 18              |
| Debtors arising out of reinsurance operations      |       | 128            | 128             | 188            | 188             |
| Due from group undertakings                        |       | -              | 21              | -              | 214             |
| Other debtors                                      |       | 489            | 188             | 609            | 217             |
|  |       | <u>885</u>     | <u>362</u>      | <u>1,091</u>   | <u>637</u>      |
| <b>OTHER ASSETS</b>                                |       |                |                 |                |                 |
| Tangible assets                                    | 17    | 46             | 46              | 46             | 46              |
| Cash at bank and in hand                           |       | 1,860          | 713             | 513            | 511             |
| Other  | 18    | 117            | 117             | -              | -               |
|  |       | <u>2,023</u>   | <u>876</u>      | <u>559</u>     | <u>557</u>      |
| <b>PREPAYMENTS AND ACCRUED INCOME</b>              |       |                |                 |                |                 |
| Accrued interest and rent                          |       | 1,587          | 433             | 1,048          | 413             |
| Deferred acquisition costs                         |       | 1,967          | 1,700           | 2,466          | 2,418           |
| Other prepayments and accrued income               |       | -              | -               | 3              | 3               |
|  |       | <u>3,554</u>   | <u>2,133</u>    | <u>3,517</u>   | <u>2,834</u>    |
| <b>TOTAL ASSETS</b>                                |       | <u>490,911</u> | <u>211,478</u>  | <u>542,644</u> | <u>245,349</u>  |

**Balance Sheets**  
at 31 December 2002

|  | Notes | 2002          |                 | 2001          |                 |
|--|-------|---------------|-----------------|---------------|-----------------|
|  |       | Group<br>£000 | Society<br>£000 | Group<br>£000 | Society<br>£000 |
| <b>Liabilities</b>                                     |       |               |                 |               |                 |
| FUND FOR FUTURE APPROPRIATIONS                         | 10    | 29,260        | 29,260          | 32,491        | 32,491          |
| <b>TECHNICAL PROVISIONS</b>                            |       |               |                 |               |                 |
| Long term business provision                           | 15    | 117,231       | 48,298          | 82,702        | 46,108          |
| Claims outstanding                                     | 16    | 5,542         | 4,092           | 6,363         | 4,539           |
|  |       | 122,773       | 52,390          | 89,065        | 50,647          |
| TECHNICAL PROVISIONS FOR LINKED LIABILITIES            | 16    | 332,583       | 126,345         | 410,330       | 152,173         |
| <b>PROVISIONS FOR OTHER RISKS AND CHARGES</b>          |       |               |                 |               |                 |
| Provision for taxation                                 | 18    | -             | -               | 2,987         | 2,987           |
| Other provisions                                       | 19    | 2,123         | 2,123           | 5,763         | 5,763           |
|  |       | 2,123         | 2,123           | 8,750         | 8,750           |
| <b>CREDITORS</b>                                       |       |               |                 |               |                 |
| Creditors arising out of direct insurance operations   |       | 981           | 623             | 881           | 508             |
| Creditors arising out of reinsurance operations        |       | 160           | 68              | 80            | 77              |
| Due to group undertakings                              |       | -             | 123             | -             | 100             |
| Amounts owed to credit institutions                    |       | -             | -               | 38            | -               |
| Other creditors including taxation and social security | 20    | 544           | 192             | 726           | 467             |
|  |       | 1,685         | 1,006           | 1,725         | 1,152           |
| ACCRUALS AND DEFERRED INCOME                           |       | 2,487         | 354             | 283           | 136             |
| TOTAL LIABILITIES                                      |       | 490,911       | 211,478         | 542,644       | 245,349         |

The notes to pages 16 to 36 form an integral part of these financial statements.

The financial statements were approved by the board of directors on 12 March 2003 and were signed on its behalf by

  
P E Oldham  
Chairman

  
L M Etheridge  
Director

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## Notes to the Accounts

at 31 December 2002

### 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. As permitted by Section 230 of the Companies Act 1985, no profit and loss account of the parent Society is presented.

#### **Financial Reporting Standard 18 – Accounting Policies**

The directors have reviewed the accounting policies and satisfied themselves that they are appropriate.

The provisions of Financial Reporting Standard 19 “Deferred Tax” have been adopted for the first time in these financial statements. As the group had previously adopted a full provisioning approach to deferred taxation, adoption of the standard has no effect on the financial statements.

The transitional disclosures required under FRS 17 – Retirement Benefits have been presented in Note 21. 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.



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### **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.

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### **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.

### **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.

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### **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 21 deals with reporting of pension scheme assets and liabilities under Financial Reporting Standard 17.

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## 2. Gross Premiums Written

All business is written in the UK in respect of continuing operations and relates solely to individual, long-term insurance contracts.

|                                  | 2002<br>£000 | 2001<br>£000 |
|----------------------------------|--------------|--------------|
| Gross premiums written comprise: |              |              |
| Direct insurance                 | 57,880       | 36,424       |
| Reinsurance inward               | 4            | 3            |
|                                  | <hr/>        | <hr/>        |
|                                  | 57,884       | 36,427       |
|                                  | <hr/>        | <hr/>        |

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

|                                   |        |        |
|-----------------------------------|--------|--------|
| Periodic premiums                 | 23,672 | 26,973 |
| Single premiums                   | 34,208 | 9,451  |
|                                   | <hr/>  | <hr/>  |
|                                   | 57,880 | 36,424 |
|                                   | <hr/>  | <hr/>  |
| Industrial branch life insurance  | 283    | 332    |
| Ordinary branch life insurance    | 15,509 | 17,503 |
| Pensions                          | 41,955 | 18,420 |
| Sickness and disability contracts | 133    | 169    |
|                                   | <hr/>  | <hr/>  |
|                                   | 57,880 | 36,424 |
|                                   | <hr/>  | <hr/>  |
| Investment linked contracts       | 26,117 | 27,860 |
| Non linked contracts              | 31,763 | 8,564  |
|                                   | <hr/>  | <hr/>  |
|                                   | 57,880 | 36,424 |
|                                   | <hr/>  | <hr/>  |

### New business premiums

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

|                                | 2002<br>£000 | 2001<br>£000 |
|--------------------------------|--------------|--------------|
| Periodic premiums:             |              |              |
| Ordinary branch life insurance |              |              |
| Investment linked contracts    | 4            | 13           |
| Non linked contracts           | -            | 1            |
| Pensions business              |              |              |
| Investment linked contracts    | 37           | 67           |
|                                | <hr/>        | <hr/>        |
|                                | 41           | 81           |
|                                | <hr/>        | <hr/>        |
| Single premiums:               |              |              |
| Ordinary branch life insurance |              |              |
| Investment linked contracts    | 40           | 105          |
| Pensions business              |              |              |
| Investment linked contracts    | 5,217        | 3,952        |
| Non linked contracts           | 28,945       | 5,384        |
|                                | <hr/>        | <hr/>        |
|                                | 34,202       | 9,441        |
|                                | <hr/>        | <hr/>        |

### 3. Investment Return

|   | 2002<br>£000 | 2001<br>£000 |
|---|--------------|--------------|
| Investment income:                      |              |              |
| Income from land and buildings          | 53           | 277          |
| Income from listed investments          | 17,100       | 13,765       |
| Income from other investments           | 2,531        | 4,122        |
|   | <hr/>        | <hr/>        |
|   | 19,684       | 18,164       |
| Value readjustments on investments      | (9)          | 19           |
| Net gains on realisation of investments | 4,976        | 6,216        |
|   | <hr/>        | <hr/>        |
|   | 24,651       | 24,399       |
| Unrealised losses on investments        | (87,226)     | (82,725)     |
| Investment expenses                     | (234)        | (214)        |
|   | <hr/>        | <hr/>        |
|   | (62,809)     | (58,540)     |
|   | <hr/>        | <hr/>        |

#### 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 account of The British Life Office Limited.

|  | 2002<br>£000 | 2001<br>£000 |
|--|--------------|--------------|
| a) Other technical income                                    |              |              |
| The British Life Office Limited                              | 6            | 64           |
| The Reliance Fire and Accident Insurance Corporation Limited | -            | 4            |
| Reliance Unit Managers Limited                               | 273          | 406          |
|  | <hr/>        | <hr/>        |
|  | 279          | 474          |
|  | <hr/>        | <hr/>        |
| b) Other technical charges                                   |              |              |
| The Reliance Fire and Accident Insurance Corporation Limited | 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

|  | 2002<br>£000 | 2001<br>£000 |
|--|--------------|--------------|
| Acquisition costs                                | 726          | 130          |
| Change in deferred acquisition costs             | 499          | 1,405        |
| Administrative expenses                          | 1,508        | 3,486        |
| Reinsurance commissions and profit participation | 169          | 11           |
|  | <hr/>        | <hr/>        |
|  | 2,902        | 5,032        |
|  | <hr/>        | <hr/>        |

Included within administrative expenses are:

|                                       |       |       |
|---------------------------------------|-------|-------|
| Office relocation costs               | 8     | 414   |
| Pension Review costs                  | (177) | 1,405 |
| Auditors' fees for audit services     | 123   | 84    |
| Auditors' fees for non-audit services | -     | -     |
| Depreciation of tangible assets       | 46    | 105   |
| Operating lease rentals               | 188   | 82    |

In both 2002 and 2001, the Society paid the audit fees for the whole group.

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## 6. Investment Expenses and Charges

|                                   | 2002<br>£000 | 2001<br>£000 |
|-----------------------------------|--------------|--------------|
| Investment expenses               | 234          | 214          |
| Value readjustments on investment | 9            | -            |
|                                   | <hr/>        | <hr/>        |
|                                   | 243          | 214          |
|                                   | <hr/>        | <hr/>        |

## 7. Employee Information

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

|                         | 2002  | 2001  |
|-------------------------|-------|-------|
| Management              | 5     | 5     |
| Administration          | 78    | 93    |
| Home Service fieldforce | 29    | 31    |
|                         | <hr/> | <hr/> |
|                         | 112   | 129   |
|                         | <hr/> | <hr/> |

Staff costs for the above totalled:

|                       | £000  | £000  |
|-----------------------|-------|-------|
| Wages and Salaries    | 1,886 | 2,359 |
| Social Security costs | 148   | 185   |
| Other Pension Costs   | -     | -     |
|                       | <hr/> | <hr/> |
|                       | 2,034 | 2,544 |
|                       | <hr/> | <hr/> |

## 8. Directors' Emoluments

|                             | 2002<br>£000 | 2001<br>£000 |
|-----------------------------|--------------|--------------|
| Total directors' emoluments | 178          | 168          |

In 2002 and 2001 retirement benefits accrued to one director in respect of qualifying service in the group's defined benefit pension scheme.

## 9. Taxation

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

|  | 2002<br>£000   | 2001<br>£000   |
|--|----------------|----------------|
| UK Corporation Tax at 20.6% (2001 - 21.4%)                             | 918            | 1,582          |
| Deferred taxation within technical provision<br>for linked liabilities | (3,765)        | (4,497)        |
| Other deferred taxation (see note 18)                                  | (3,104)        | (1,596)        |
| Adjustments in respect of prior periods                                | 5              | (92)           |
|  | <u>(5,946)</u> | <u>(4,603)</u> |

## 10. Fund for Future Appropriations

|                                       | 2002          |                 | 2001          |                 |
|---------------------------------------|---------------|-----------------|---------------|-----------------|
|                                       | Group<br>£000 | Society<br>£000 | Group<br>£000 | Society<br>£000 |
| Balance at 1 January                  | 32,491        | 32,491          | 29,639        | 29,639          |
| Transfer from profit and loss account | (3,231)       | (3,231)         | 2,852         | 2,852           |
|                                       | <u>29,260</u> | <u>29,260</u>   | <u>32,491</u> | <u>32,491</u>   |

## 11. Land and Buildings

All land and buildings were owned throughout 2002 and 2001 by the parent Society.

|                         | 2002                    |              | 2001                    |              |
|-------------------------|-------------------------|--------------|-------------------------|--------------|
|                         | Market<br>Value<br>£000 | Cost<br>£000 | Market<br>Value<br>£000 | Cost<br>£000 |
| Other freehold property | 10                      | -            | 4,714                   | 2,537        |
|                         | <u>—</u>                | <u>—</u>     | <u>—</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.

|  | 2002            |               | 2001            |               |
|--|-----------------|---------------|-----------------|---------------|
|  | Net Asset Value | Cost          | Net Asset Value | Cost          |
|  | £000            | £000          | £000            | £000          |
| The British Life Office Limited                              | 7,840           | 30,000        | 5,333           | 25,000        |
| The Reliance Fire and Accident Insurance Corporation Limited | 461             | 1,000         | 688             | 1,000         |
| Reliance Unit Managers Limited                               | 375             | 50            | 502             | 50            |
| Reliance Pension Scheme Trustee Limited                      | -               | -             | -               | -             |
| Reliance ISA Managers Limited                                | 100             | 100           | 100             | 100           |
|  | <u>8,776</u>    | <u>31,150</u> | <u>6,623</u>    | <u>26,150</u> |

On 13 December 2002 The British Life office issued £5 million ordinary share share capital which was taken up by the Society.

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           |

## 13. Other Financial Investments

### a) Group Balance Sheet

|   | 2002           |                | 2001           |                |
|---|----------------|----------------|----------------|----------------|
|   | Market Value   | Cost           | Market Value   | Cost           |
|   | £000           | £000           | £000           | £000           |
| Shares and other variable yield securities and units in unit trusts | 24,864         | 19,331         | 23,723         | 13,968         |
| Debt securities and other fixed income securities                   | 103,749        | 98,556         | 69,526         | 68,526         |
| Loans secured by mortgages  | 560            | 560            | 740            | 740            |
| Other loans   | 802            | 802            | 797            | 797            |
| Deposits with credit institutions                                   | 17,197         | 17,197         | 23,970         | 23,970         |
|   | <u>147,172</u> | <u>136,446</u> | <u>118,756</u> | <u>108,001</u> |

b) Society Balance Sheet

|   | 2002         |        | 2001         |        |
|---|--------------|--------|--------------|--------|
|   | Market Value | Cost   | Market Value | Cost   |
|   | £000         | £000   | £000         | £000   |
| Shares and other variable yield securities and units in unit trusts | 23,615       | 17,478 | 21,838       | 11,650 |
| Debt securities and other fixed income securities                   | 38,277       | 36,376 | 32,405       | 32,143 |
| Loans secured by mortgages  | 560          | 560    | 740          | 740    |
| Other loans   | 802          | 802    | 797          | 797    |
| Deposits with credit institutions                                   | 5,171        | 5,171  | 19,036       | 19,036 |
|   | <hr/>        | <hr/>  | <hr/>        | <hr/>  |
|   | 68,425       | 60,387 | 74,816       | 64,366 |
|   | <hr/>        | <hr/>  | <hr/>        | <hr/>  |

c) Analysis of market values of other financial investments

|   | 2002   |         | 2001   |         |
|---|--------|---------|--------|---------|
|   | Group  | Society | Group  | Society |
|   | £000   | £000    | £000   | £000    |
| Shares and other variable yield securities and units in unit trusts |        |         |        |         |
| Listed on a recognised investment exchange                          | 21,263 | 21,154  | 19,893 | 19,618  |
| Other listed investments  | 3,601  | 2,461   | 3,830  | 2,220   |
|   | <hr/>  | <hr/>   | <hr/>  | <hr/>   |
|   | 24,864 | 23,615  | 23,723 | 21,838  |
|   | <hr/>  | <hr/>   | <hr/>  | <hr/>   |

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

## 14. Assets held to cover linked liabilities

a. Group Balance Sheet

|   | 2002         |         | 2001         |         |
|---|--------------|---------|--------------|---------|
|   | Market Value | Cost    | Market Value | Cost    |
|   | £000         | £000    | £000         | £000    |
| Assets held to cover linked liabilities | 324,034      | 353,602 | 397,683      | 349,559 |

b. Society Balance Sheet

|   | 2002         |         | 2001         |         |
|---|--------------|---------|--------------|---------|
|   | Market Value | Cost    | Market Value | Cost    |
|   | £000         | £000    | £000         | £000    |
| Assets held to cover linked liabilities | 117,337      | 112,224 | 138,928      | 117,982 |

## 15. Long Term Business Provision

|                                     | 2002          |                 | 2001          |                 |
|-------------------------------------|---------------|-----------------|---------------|-----------------|
|                                     | Group<br>£000 | Society<br>£000 | Group<br>£000 | Society<br>£000 |
| Gross amount                        |               |                 |               |                 |
| Mathematical reserves, before bonus | 116,622       | 47,349          | 82,509        | 45,115          |
| Cost of bonus added at year end     | 448           | 448             | 474           | 474             |
| Zillmer adjustment                  | 501           | 501             | 519           | 519             |
| Resilience reserve                  | (340)         | -               | (800)         | -               |
| Long term business provision        | 117,231       | 48,298          | 82,702        | 46,108          |
| Reinsurance                         |               |                 |               |                 |
| Mathematical reserves, before bonus | 3,988         | 4,313           | 2,431         | 2,948           |
| Cost of bonus added at year end     | -             | -               | -             | -               |
| Zillmer adjustment                  | 88            | 88              | 88            | 88              |
| Long term business provision        | 4,076         | 4,401           | 2,519         | 3,036           |
| Net amounts                         |               |                 |               |                 |
| Mathematical reserves, before bonus | 112,634       | 43,036          | 80,078        | 42,167          |
| Cost of bonus added at year end     | 448           | 448             | 474           | 474             |
| Zillmer adjustment                  | 413           | 413             | 431           | 431             |
| Resilience reserves                 | (340)         | -               | (800)         | -               |
| Long term business provision        | 113,155       | 43,897          | 80,183        | 43,072          |

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<br>(ultimate tables) | Interest |       |
|-------------------------------------|--------------------------------|----------|-------|
| Ordinary Branch                     |                                | 2002     | 2001  |
| - with profit insurances            | A92                            | 2.35%    | 2.65% |
| - without profit insurances         | A92                            | 3.10%    | 3.40% |
| - life annuities in payment         | I92                            | 3.52%    | 4.08% |
| - pension annuities for smokers     | PA92                           | 4.90%    | 6.00% |
| - other pension annuities           | PA92                           | 4.40%    | 5.10% |
| - pension without profit insurances | A92                            | 3.88%    | 4.25% |

| Industrial Branch           | Mortality | Interest |       |
|-----------------------------|-----------|----------|-------|
|                             |           | 2002     | 2001  |
| - with profit insurances    | ELT15     | 2.35%    | 2.65% |
| - mortuary bonus insurances | ELT15     | 2.73%    | 3.03% |
| - without profit insurances | ELT15     | 3.10%    | 3.40% |

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 90% (2001 – 95%) of the published mortality rates. For smoker annuities 140% of the published rates is used to reflect shorter life expectancies.

## 16. Technical Provisions

|                                      | Long Term<br>Business<br>Provision<br>£000 | Claims<br>Outstanding<br>£000 | Technical<br>Provisions for<br>Linked Liabilities<br>£000 |
|--------------------------------------|--|-------------------------------|---|
| <b>a. <u>Group Balance Sheet</u></b> |  |                               |   |
| Gross technical provisions           |  |                               |   |
| Balance at 1 January 2002            | 82,702                                     | 6,363                         | 410,330   |
| Movement for the year                | 34,529                                     | (821)                         | (77,747)  |
|                                      | —  | —                             | —   |
| Balance at 31 December 2002          | 117,231                                    | 5,542                         | 332,583   |
|                                      | —  | —                             | —   |
| Reinsurers' Share                    |  |                               |   |
| Balance at 1 January 2002            | 2,519                                      | 1,158                         | 12,647  |
| Movement for the year                | 1,557                                      | (550)                         | (4,098)   |
|                                      | —  | —                             | —   |
| Balance at 31 December 2002          | 4,076                                      | 608                           | 8,549   |
|                                      | —  | —                             | —   |
| Net technical provisions             |  |                               |   |
| Balance at 31 December 2002          | 113,155                                    | 4,934                         | 324,034   |
| Balance at 1 January 2002            | 80,183                                     | 5,205                         | 397,683   |
|                                      | —  | —                             | —   |

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 19).

|                                 | Long Term<br>Business<br>Provision<br>£000 | Claims<br>Outstanding<br>£000 | Technical<br>Provisions for<br>Linked Liabilities<br>£000 |
|---------------------------------|--|-------------------------------|---|
| <b>b. Society Balance Sheet</b> |  |                               |   |
| Gross technical provisions      |  |                               |   |
| Balance at 1 January 2002       | 46,108                                     | 4,539                         | 152,173   |
| Movement for the year           | 2,190                                      | (447)                         | (25,828)  |
|                                 | <hr/>                                      | <hr/>                         | <hr/>   |
| Balance at 31 December 2002     | 48,298                                     | 4,092                         | 126,345   |
|                                 | <hr/>                                      | <hr/>                         | <hr/>   |
| Reinsurers' Share               |  |                               |   |
| Balance at 1 January 2002       | 3,036                                      | 229                           | 13,245  |
| Movement for the year           | 1,365                                      | (79)                          | (4,237)   |
|                                 | <hr/>                                      | <hr/>                         | <hr/>   |
| Balance at 31 December 2002     | 4,401                                      | 150                           | 9,008   |
|                                 | <hr/>                                      | <hr/>                         | <hr/>   |
| Net technical provisions        |  |                               |   |
| Balance at 31 December 2002     | 43,897                                     | 3,942                         | 117,337   |
| Balance at 1 January 2002       | 43,072                                     | 4,310                         | 138,928   |
|                                 | <hr/>                                      | <hr/>                         | <hr/>   |

## 17. Tangible Assets

In 2002 and 2001 all tangible fixed assets were owned by the parent Society.

|                                | Motor<br>Vehicles<br>£000 | Computer<br>Hardware<br>£000 | Office<br>Equipment<br>£000 | Total<br>£000 |
|--------------------------------|---------------------------|------------------------------|-----------------------------|---------------|
| Cost:                          |                           |                              |                             |               |
| Brought forward                | 85                        | 207                          | 56                          | 348           |
| Additions                      | -                         | 3                            | 46                          | 49            |
| Disposals                      | (13)                      | -                            | -                           | (13)          |
|                                | <hr/>                     | <hr/>                        | <hr/>                       | <hr/>         |
| At 31 December 2002            | 72                        | 210                          | 102                         | 384           |
|                                | <hr/>                     | <hr/>                        | <hr/>                       | <hr/>         |
| Depreciation:                  |                           |                              |                             |               |
| Brought forward                | 73                        | 184                          | 45                          | 302           |
| Disposals                      | (10)                      | -                            | -                           | (10)          |
| Charge for the year            | 9                         | 17                           | 20                          | 46            |
|                                | <hr/>                     | <hr/>                        | <hr/>                       | <hr/>         |
| At 31 December 2002            | 72                        | 201                          | 65                          | 338           |
|                                | <hr/>                     | <hr/>                        | <hr/>                       | <hr/>         |
| Book value at 31 December 2002 | -                         | 9                            | 37                          | 46            |
|                                | <hr/>                     | <hr/>                        | <hr/>                       | <hr/>         |
| Book value at 31 December 2001 | 12                        | 23                           | 11                          | 46            |
|                                | <hr/>                     | <hr/>                        | <hr/>                       | <hr/>         |

## 18. Deferred Taxation

In 2002 and 2001 all recognised deferred tax balances relate to the parent Society.

|   | Deferred tax<br>£000 |
|---|----------------------|
| At 1 January 2002                           | (2,987)              |
| Profit and loss account credit (see note 9) | 3,104                |
|   | <hr/>                |
| At 31 December 2002                         | 117                  |
|   | <hr/>                |

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

|                                     | 2002<br>£000 | 2001<br>£000 |
|-------------------------------------|--------------|--------------|
| Deferred taxation on:               |              |              |
| Unrealised gains on investments     | (594)        | (4,325)      |
| Deferred acquisition expenses       | 1,051        | 1,770        |
| Deferred acquisition costs          | (340)        | (430)        |
| Other short-term timing differences | -            | (2)          |
|                                     | <hr/>        | <hr/>        |
|                                     | 117          | (2,987)      |
|                                     | <hr/>        | <hr/>        |

At 31 December 2002 deferred tax assets totalling £3.898m (2001 - £3.551m) have not been recognised because there are no foreseeable future gains against which the losses giving rise to the asset can be offset. There is also an unrecognized deferred tax asset of £4.320m (2001 - £3.900m) in respect of notional Case I losses within The British Life Office Limited. The possibility of this subsidiary being in a position to utilize these losses is considered remote.

## 19. PROVISIONS FOR OTHER RISKS AND CHARGES

|                                 | Deferred<br>Taxation<br>(note 18)<br>£000 | Former<br>Branch<br>Offices<br>£000 | Pensions<br>Transfers<br>& Opt-outs<br>£000 | Total<br>£000 |
|---------------------------------|---|-------------------------------------|---|---------------|
| Provision at 1 January 2002     | 2,987                                     | 1,863                               | 3,900                                       | 8,750         |
| Costs charged against provision | (2,987)                                   | (240)                               | (3,223)                                     | (6,450)       |
| Unused amounts reversed         | -   | -                                   | (177)                                       | (177)         |
|                                 | <hr/>                                     | <hr/>                               | <hr/>                                       | <hr/>         |
| Provision at 31 December 2002   | -   | 1,623                               | 500   | 2,123         |
|                                 | <hr/>                                     | <hr/>                               | <hr/>                                       | <hr/>         |

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 22.

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 reversal of unused amounts has been credited to operating expenses (see note 5.).

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.

## 20. Other Creditors including taxation and social security

|                              | 2002  |         | 2001  |         |
|------------------------------|-------|---------|-------|---------|
|                              | Group | Society | Group | Society |
| Taxation and Social Security | 202   | 57      | 512   | 316     |
| Other creditors              | 342   | 135     | 214   | 151     |
|                              | —     | —       | —     | —       |
|                              | 544   | 192     | 726   | 467     |
|                              | —     | —       | —     | —       |

## 21. 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 £105,000 (2001: Nil.). There is a pension accrual of £105,000 (2001: Nil) 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 2002 the Society made no contribution to the scheme. 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 and 31 December 2002 by the Actuary to the scheme.

### Assumptions

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

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

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

|  | Fair Value<br>2002<br>£000 | Expected long-<br>term rate of<br>return 2002<br>% | Fair value<br>2001<br>£000 | Expected long-<br>term rate of<br>return 2001<br>% |
|--|----------------------------|--|----------------------------|--|
| At 31 December                             |                            |  |                            |  |
| Market value of scheme<br>assets:          |                            |  |                            |  |
| Equities                                   | 7,466                      | 7.9  | 13,851                     | 6.25   |
| UK Government Fixed<br>interest securities | 6,539                      | 4.1  | 3,485                      | 4.65   |
| Corporate bonds (incl.<br>overseas bonds)  | 6,939                      | 4.6  | 3,302                      | 5.45   |
| Property                                   | 3,125                      | 7.4  | 1,586                      | 5.75   |
| Other                                      | 1,696                      | 3.5  | 5,065                      | 4  |
| Total fair value of<br>scheme assets       | 25,765                     | (5.7)  | 27,289                     | (5.5)  |



If the accounting requirements of FRS 17 applied in full in 2002, the following items would have been reported in the Group's financial statements:

Impact on Profit and Loss Account

|   |              |
|---|--------------|
|   | 2002<br>£000 |
| Investment income:                          |              |
| Expected return on pension scheme assets    | 1,502        |
| Interest cost of pension scheme liabilities | (1,260)      |
|   | <hr/>        |
| Total                                       | 242          |
|   | <hr/>        |

Pension cost:

|                      |              |
|----------------------|--------------|
|                      | 2002<br>£000 |
| Current service cost | 385          |
| Past service costs   | 1,385        |
|                      | <hr/>        |
| Total                | 1,770        |
|                      | <hr/>        |

Impact on Fund for Future Appropriations

|   |         |
|---|---------|
| Actual return less expected return on pension scheme assets | (2,181) |
| Experience gains and losses arising on scheme liabilities   | ( 185)  |
| Effect of changes in demographic and financial assumptions  | (1,118) |
|   | <hr/>   |
| Actuarial losses recognised                                 | (3,484) |
| Deferred tax thereon  | 718     |
|   | <hr/>   |

Amount that would be recognised in the Fund for Future Appropriations (2,766)

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

|  |              |
|--|--------------|
|  | 2002<br>£000 |
| Actual return less expected return on pension scheme assets:     | (2,181)      |
| Percentage of scheme assets at balance sheet date : (8.5%)       |              |
| Experience gains and losses arising on scheme liabilities:       | ( 185)       |
| Percentage of scheme liabilities at balance sheet date : (0.7%)  |              |
| Total amount recognised in the Fund for Future Appropriations    | (2,766)      |
| Percentage of scheme liabilities at balance sheet date : (11.0%) |              |

Impact on Balance Sheet

|                                     | 2002<br>£000 | 2001<br>£000 |
|-------------------------------------|--------------|--------------|
| Market value of assets              | 25,765       | 27,289       |
| Present value of scheme liabilities | 25,089       | 21,723       |
|                                     | <hr/>        | <hr/>        |
| Surplus in the scheme               | 676          | 5,566        |
| Related deferred tax provision      | (139)        | (1,147)      |
|                                     | <hr/>        | <hr/>        |
| Net pension asset                   | 537          | 4,419        |
|                                     | <hr/>        | <hr/>        |

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

|   | 2002<br>£000 | 2001<br>£000 |
|---|--------------|--------------|
| Total Assets:   |              |              |
| Excluding pension asset                                 | 490,911      | 542,644      |
| Pension asset   | 537          | 4,419        |
|   | <hr/>        | <hr/>        |
| Including pension asset                                 | 491,448      | 547,063      |
|   | <hr/>        | <hr/>        |
| Fund for Future Appropriations, excluding pension asset | 29,260       | 32,491       |
| Pension asset   | 537          | 4,419        |
|   | <hr/>        | <hr/>        |
| Including pension asset                                 | 29,797       | 36,910       |

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

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

## 22. Contingent Liabilities and Other Commitments

At 31 December 2002 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 eight (2001- nine) such leases expiring between 2008 and 2015. Total estimated liabilities in respect of these leases amount to £3.7m (2001-£4.0m). A provision in respect of future liabilities, after offsetting projected income from subleases on some of the properties, is held as described in note 19 above.

## 23. 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:

|                              | 2002<br>£000 | 2001<br>£000 |
|------------------------------|--------------|--------------|
| Expiring within 1 to 4 years | 188          | 188          |

## 24. 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:

|                            | 2002                  |                       | 2001                  |                       |
|----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                            | No of<br>Units<br>000 | Unit<br>Value<br>£000 | No of<br>Units<br>000 | Unit<br>Value<br>£000 |
| a. <u>Group holdings</u>   |                       |                       |                       |                       |
| Units purchased            | 86                    | 309                   | 33                    | 162                   |
| Units sold                 | 1,930                 | 8,846                 | 109                   | 571                   |
| Holding at 31 December     | <u>46,248</u>         | <u>163,483</u>        | <u>48,092</u>         | <u>227,810</u>        |
| b. <u>Society holdings</u> |                       |                       |                       |                       |
|                            | -                     | -                     | 10                    | 47                    |
| Units purchased            | 1,753                 | 7,894                 | 432                   | 2,284                 |
| Units sold                 | <u>17,145</u>         | <u>60,608</u>         | <u>18,898</u>         | <u>39,518</u>         |
| Holding at 31 December     |                       |                       |                       |                       |

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Mr L M Etheridge was in receipt of a loan from the Society during the year. The loan was advanced on the security of a policy of assurance held by Mr Etheridge, and was on the same terms as available to other policyholders. £6,000 was advanced on 19 March 2002 and the loan was fully repaid on 20 December 2002. The maximum sum outstanding during the year was £6,191. The rate of interest charged was 7.5% p.a.

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 £7,777 (2001 - £8,749) and the amount outstanding at the balance sheet date was £4,861 (2001 - £7,777). Interest was charged at 4% 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, totaled £2,848 (2001 - £825).

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

**RELIANCE MUTUAL  
INSURANCE SOCIETY LIMITED**

**ANNUAL REPORT AND GROUP ACCOUNTS 2002**