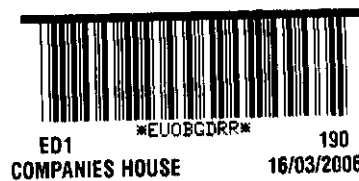


Report and Group Accounts

31 December 2005



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## **Reliance Mutual Insurance Society Limited**

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### **DIRECTORS**

P E Oldham MA Chairman  
W J Cain BCom FCA  
L M Etheridge BSc FIA  
R P J Randall BSc FIA  
C B Russell FFA FTII  
F B Sanjana BA FCII

### **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  
C A Whatford BSc ACA Financial Controller

### **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

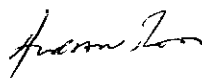
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### NOTICE OF MEETING

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 18 May 2006 at 12.30 p.m. for the following purposes:

1. To consider the Directors' Report and Financial Statements for the year ended 31 December 2005 and the Auditors' Report thereon.
2. To elect Directors
3. To re-appoint PricewaterhouseCoopers LLP as auditors of the Society to hold office until the conclusion of the next Annual General Meeting and to authorised the Directors to fix their remuneration.

By Order of the Board



A Prior  
Secretary

14 March 2006

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 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.

Copies of the Directors' Report and Statement of Accounts with the Auditors' Report thereon may be obtained on application to the Secretary.

## Reliance Mutual Insurance Society Limited

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### BOARD OF DIRECTORS

P E OLDHAM MA (Age 61) Chairman  
(Appointed 17/11/1992; Chairman 14/09/2000)

Paul Oldham was investment manager of the Commercial Union Pension Fund and then the British Steel Pension Fund. He is currently investment adviser to the British Steel Pension Fund and London Borough of Barnet Pension Scheme.

W J CAIN BCom FCA (Age 67) Senior Independent Director  
(Appointed 13/07/2000) Chairman of the Audit Committee

Jack Cain is a chartered accountant who spent the last 25 years of his career with British Steel plc, where he was Treasurer and Group Accountant, and most recently director responsible for mergers and acquisitions. He was also Chairman of the British Steel Pension Fund Finance Committee for 15 years.

L M ETHERIDGE BSc FIA (Age 54) Chief Executive  
(Appointed 19/12/1985)

Ian Etheridge joined Reliance Mutual in 1983 as Deputy Actuary and became Appointed Actuary in 1988. Following a major reorganisation of the company he became Chief Executive in January 2000.

R P J RANDALL BSc FIA (Age 56)  
(Appointed 01/07/2004)

Jim Randall is a qualified actuary and has spent the previous 25 years in the life and health reinsurance industry with Munich Re, Liberty Re and General Re. He is a non-executive of a new tele-underwriting company, Morgan Ash.

C B RUSSELL BSc FFA (Age 66)  
(Appointed 17/12/1992)

Chris Russell worked as an actuary in well-known life offices before pursuing his career as a self-employed consultant offering tax and actuarial advice to financial institutions and others.

F B SANJANA BA FCII (Age 50) Chairman of the Investment Committee  
(Appointed 01/07/2004)

Barry Sanjana spent 25 years working for the investment management subsidiaries of Royal Insurance, Commercial Union/CGU and Friends Provident. He was Chief Investment Officer in both the CGU and Friends Provident Group.

### Directors' Remuneration

		Salary/Fees £	Benefits £	Total £
P E Oldham	Chairman	25,500	-	25,500
L M Etheridge	Chief Executive	167,737	1,297	169,034
W J Cain		15,000	-	15,000
R P J Randall		15,000	-	15,000
C B Russell		15,000	-	15,000
F B Sanjana		17,250	-	17,250

## **Reliance Mutual Insurance Society Limited**

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### **CHAIRMAN'S STATEMENT**

The first six years of the millennium have seen major change at Reliance Mutual and 2005 has been a year of continuing progress. At the end of 1999 we had just closed our direct selling operations and the accounts for that year showed funds of £650m, gross premium income of £45m and a fund for future appropriations of £22m. The corresponding figures for 2005 show funds of £1,205m, premium income of £83m and a fund for future appropriations of £93m. This growth has been achieved in a cost effective manner in a period when the FTSE 100 has declined and reflects a considerable strengthening of the Society's financial position.

#### **New Business**

As predicted in my 2004 Statement, new business in 2005 was lower than the previous year. Through our smoker annuity contract we have continued to provide competitive terms to policyholders through a large range of independent financial advisers. An interesting feature of the year was the decline in average case size which may be a reflection of people with larger funds waiting for the introduction of pensions simplification in April 2006 before taking their benefits.

#### **Blocks of Business**

On 11 July 2005 the whole of the inforce business of Eurolife Assurance Company Limited was acquired. The administration of this business was immediately and successfully transferred on to our systems in Tunbridge Wells. We regard this as an important feature of acquisitions in order to ensure that policyholders receive a high level of service.

Acquisition of blocks of business remains an important part of our ongoing strategy and we anticipate announcing further deals in 2006. We specialise in smaller blocks of business than the other active acquirers, normally looking for in the region of 10,000 – 50,000 policies. Our systems are able to deal with most types of contract, including with profits. Through our acquisitions we now run four funds closed to with profits business and the good performance of these funds demonstrates the benefits which can be achieved for policyholders.

#### **Investment**

Despite the rises in commodity prices, especially oil, few inflationary pressures developed and interest rates worldwide remained low. This background, together with ample global liquidity enabled most asset classes to perform well during 2005. Commercial property returned almost 19%, the FTSE All-Share Total Return Index rose by 22% and the World ex UK Total Return by 24.85% in sterling terms. The US equity market was weak with the S&P up by only 3% although, due to dollar strength, the return to a UK based investor was nearly 15%. Sterling bonds, as measured by the FTSE Government UK Gilts Total Return Index, rose by 11% following demand from pension funds.

Our funds performed well over the year, most noteworthy being the 24.5% increase in the Pension Managed Fund and 25.8% net return achieved by the Life Trust Managed Fund.

## Reliance Mutual Insurance Society Limited

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### Staff

The growth I referred to at the start of this Statement has been achieved with a reduced level of staff. The progress made by the Society would not have been possible without the support, commitment and hard work of all our staff and I would like to thank them all for their considerable efforts.

### Board

The board is committed to a high standard of corporate governance and is in the process of implementing the provisions of The Combined Code on Corporate Governance for Mutual Insurers.

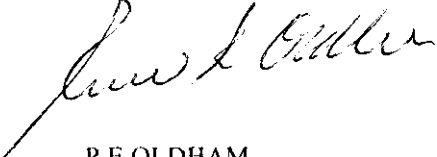
There have been no changes to the board in 2005.

Early in 2005 Les Etheridge advised the board that he intended to take early retirement in June 2006. As a result a recruitment process was put into place in September 2005 and our new Chief Executive, Mark Goodale, has recently been appointed and will be starting at the end of May 2006. Mark is currently working for Ecclesiastical in Gloucester where he has responsibility for the life side of the business, holding the position of General Manager and Director.

Les Etheridge joined Reliance in 1983 as Deputy Actuary, becoming a director in 1985 and Chief Executive in 2000. He has made an enormous contribution to Reliance, but especially during his period as Chief Executive when the business has been transformed.

### The Future

Reliance has the expertise, systems and financial strength to seek growth through niche products and blocks of business. Several propositions are now being pursued. The structure of the life assurance market is changing and Reliance is well placed to take advantage of opportunities. The interests of our policyholders remain the paramount consideration of the board.



P E OLDHAM  
Chairman

14 March 2006

## **Reliance Mutual Insurance Society Limited**

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### **REPORT OF THE DIRECTORS**

The directors present their report and the audited financial statements for the year ended 31 December 2005.

#### **Principal Activities**

The principal activity of the group continues to be the transaction of long term insurance business.

#### **Review of Business**

On 11 July 2005 the High Court approved the transfer of the whole of the inforce long-term business of Eurolife Assurance Company Limited to Reliance Mutual Insurance Society Ltd. This transfer further increased the Society's funds under management by £49m.

New business from the smoker annuity product fell compared to the previous year, generating £39.2m (2004 £51.0m) new single premiums. In addition proceeds of vesting pensions totalling £0.8m were retained. A continuing service offering increment business to existing clients was provided. The Group continued writing credit life insurance business during the year, which attracted £10.6m new single premiums and £0.1m new annual premiums. New business in the year as a whole was £63.2m (2004 £75.8m) new single premiums and £0.2m (2004 £1.7m) new regular premiums.

Stock market values continued to rise in 2005 with the FTSE All Share Index finishing 18.1% above its opening value. Bond yields falling during the year resulted in an increase in market values. Overall the market value of the Groups investments rose to £1,172m.

The directors consider that the resources of the group are sufficient to meet policy liabilities as they fall due.

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

An investigation of the long-term liabilities at 31 December 2005 has been carried out. The directors have determined appropriate provisions for the long-term business liabilities which have been included in the financial statements. Rates of bonus for the main classes of policy declared by the directors are set out on page 15.

#### **Directors**

The directors listed on page 3 held office throughout the year. Being over age 65, Messrs Cain and Russell retire and offer themselves for re-election. Mr Etheridge retires by rotation and, being eligible, offers himself for re-election. All directors are members and policyholders of Reliance Mutual Insurance Society Limited. 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.



## **Reliance Mutual Insurance Society Limited**

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### **Pensions**

The Society has maintained a defined benefit scheme for employees for many years.

### **Political and Charitable Contributions**

No political contributions were made during the year. Charitable contributions totalled £382 (2004 - £258).

### **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.

### **Financial Risk Management**

The Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. The key components of this financial risk are market risk, credit risk and liquidity risk.

Investment guidelines have been established to control exposure to both market and credit risk.

#### **Market risk**

The Group's policy is to minimise exposure to market risk.

For unit linked business, the liabilities to policyholders are closely matched by the appropriate assets. Guaranteed non-linked benefits are matched with fixed interest securities and asset and liability cash flows for non-profit non-linked business are matched as far as possible.

The maximum level of equity holdings for non-linked business is considered annually, and the investment guidelines place restrictions on investment in non-sterling assets thereby reducing exchange rate fluctuations.

#### **Credit risk**

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- deposits
- corporate bonds
- premiums for credit life business being paid in arrears
- reinsurers' share of insurance liabilities

The policy is to, where possible, ensure a spread of risk and provide adequate information to allow ongoing monitoring of the risks.

## Reliance Mutual Insurance Society Limited

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Investment guidelines limit exposure to any one corporate bond, and require consideration to be given to undue concentration in any one industry sector. Investment in un-rated corporate bonds and those down graded below investment grade are reported annually to the investment committee. Investment guidelines also cover cash deposits.

The investment guidelines also include limits on exposure to a single counterparty. The exposure to counterparties for deposits in internal linked funds is also monitored by the investment committee.

Credit Life business is monitored to ensure money due is received and profit share arrangements are also in place.

The credit worthiness of reinsurers is considered on an annual basis through the valuation process. A six monthly review through the risk assessments of reinsurers for new projects is also carried out.

### *Liquidity risk*

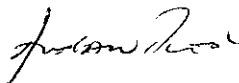
Liquidity risk is the risk that cash may not be available to meet outgoing payments as and when required at a reasonable cost.

The Group's policy is to have cash available to meet outgoing payments as and when required. Cash is always held on short term deposit and on call and can be raised from investments when required. Cash requirements for the following week are projected weekly.

### **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

14 March 2006

## CORPORATE GOVERNANCE

### The Board

The board comprises the Chairman, one executive director and four non-executive directors. The board considers this to be the appropriate size and balance for the company. Details of each director are shown on page 5. The board considers that each of its non-executive directors is independent in character and judgement. Although Mr Russell has served the board for more than nine years and provides advice as a taxation consultant, the board considers he brings valuable experience and objectivity to board deliberations.

The board determines:

- strategic principles and objectives and approves an annual budget and monitors performance
- risk appetite
- organisational structure
- pension and remuneration policies

The board declares annual and final bonuses and approves the annual report and group accounts, and the annual regulatory return to the FSA. It also approves the Principles and Practices of Financial Management. It reserves to itself decisions on acquisitions and ensures there is an appropriate apportionment of responsibilities among the Chief Executive and senior managers to effectively manage the business. The board has overall responsibility for the company's system of internal control and its effectiveness was reviewed at the annual strategy meeting.

The board usually has six regular meetings in the year as well as an annual strategy review. Other meetings are convened as required and there were two additional meetings in 2005. An agenda is prepared for all meetings and appropriate papers are provided to the directors in advance of each meeting. Members of management are required to attend meetings to provide information concerning key areas of the company's operations. Attendance at the 9 meetings was as follows:

P E Oldham	9
W J Cain	8
L M Etheridge	9
R P J Randall	7
C B Russell	9
F B Sanjana	9

During 2005 all directors attended all meetings of the committees of the board of which they were members. Directors have full access to the services of the company secretary and may take independent professional advice at the company's expense if they judge it necessary to discharge their responsibilities as directors.

An annual review of the board as a whole was undertaken at the annual strategy meeting and the performance of the Chairman was appraised by the Non-Executive Directors led by the Senior Independent Director. The division of responsibilities between the Chairman and the Chief Executive is set out in writing and has been agreed by the board.

All directors appointed by the board must stand for reappointment at the AGM following their appointment. One third of the members of the board must stand for reappointment at each AGM. Directors who are 65 years of age or over must stand for reappointment at each AGM.

## Reliance Mutual Insurance Society Limited

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### Board Committees

#### Audit Committee

The directors who served on the committee during the year were Messrs W J Cain (Chairman), C B Russell, R P J Randall and F B Sanjana. The committee meets once a year and at that meeting meets with the auditors in the absence of management. The terms of reference of the audit committee are as follows:

1. The committee will assist the board in fulfilling its oversight responsibilities.
2. The committee shall be a committee of the board of Reliance Mutual Insurance Society Limited and its subsidiary companies ("the group").
3. The committee shall be composed of such non-executive directors as asked by the board and shall agree to serve from time to time.
4. The board shall elect a Chairman who shall be responsible for the reporting of the recommendations of the committee to the board of the company.
5. The committee shall meet at such times as it shall think fit in order to discharge its responsibilities in a timely manner.
6. The committee may invite such other people to its meetings, as it deems appropriate.
7. The external auditors should be invited to make presentations to the committee as appropriate.
8. The board authorises the audit committee, within the scope of its responsibilities to:
  - seek information from relevant employees
  - obtain outside professional advice
  - ensure the attendance of company officers at meetings as appropriate
9. The responsibilities of the committee are:
  - To monitor the integrity of the financial statements of the company, reviewing significant financial reporting judgements contained in them;
  - To review the company's financial controls;
  - To monitor and review the effectiveness of the company's internal audit function;
  - To make recommendations to the board, for it to put to the members for their approval in general meeting, in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
  - To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
  - To develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
  - To provide a line of communication for the external auditors to discuss problems and reservations on matters concerning or arising from their audit. These discussions may occur with the absence of management if considered appropriate.
  - To ensure that management responds to the recommendations made by the external auditors.

## **Reliance Mutual Insurance Society Limited**

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10. For the avoidance of doubt, the committee shall not have responsibility for the investment policy of the company, which shall remain a responsibility of the full board, acting through the investment committee.
11. For the avoidance of doubt, the committee shall not have responsibility for the amount of the Long Term Business Provision or the Technical Provision for Linked Liabilities, which are the responsibility of the board, which takes advice from the Actuarial Function Holder.

### **Nomination Committee**

The whole board acts as the nomination committee for appointments to the board. These appointments are by a formal transparent procedure.

### **Investment Committee**

Mr Sanjana is chairman of this committee. The other director who is a member of this committee is Mr Etheridge.

### **Remuneration Committee**

The whole board acts as the remuneration committee and executive directors whose remuneration is being considered are asked to leave the meeting.

## **Reliance Mutual Insurance Society Limited**

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### **REPORT TO WITH PROFITS POLICYHOLDERS**

Reliance Mutual maintains a set of Principles and Practices of Financial Management (the PPFM) that set out the way in which the with profits business of the company will be run. The PPFM that applied throughout 2005 were established in October 2004.

Reliance Mutual has four separate with profit funds. Three of the funds were set up as a result of transfers of business and the PPFM allows the interests of policyholders in the separate funds to be preserved.

The main Reliance Mutual With Profits Sub Fund (RM WPSF) contains the remainder of the business. Within RM WPSF there are several distinct classes of with profits business. To ensure there is a consistent treatment between different classes and generations of policyholders, the PPFM prescribes an asset share approach to set appropriate final bonus rates and thus total policy payouts.

The practices used in setting the bonus rates are set out in the PPFM. These practices were followed during 2005 as follows:

- In February 2005 annual bonus rates were declared for all the funds. These were set at the same rates as in the previous year. These applied for the year 2004.
- For RM WPSF final bonus rates were set in February and applied from March. A review of the augmentations to final bonus rates took place as required by the PPFM during the year. This coincided with a review of the final bonus rates as a result of significant increases in investment returns, also as required by the PPFM. As a result final bonus rates were revised and applied from October. The review of augmentations had been delayed and as a result additional payments were made to past claimants.
- For the with profit sub funds, WPSF2, WPSF3 and WPSF4, final bonus rates were set in May based upon results at the end of 2004 and applied to claims from June 2005. These then applied for the rest of the year. Previously, the final bonus rates from the previous year still applied.

#### **Report of the With Profits Actuary to with profits policyholders**

To all with profits policyholders:

I have considered the annual report from Reliance Mutual to with profit policyholders which is set out above and the actions and decisions relating to with profits policyholders made by the company during the 2005.

It is my opinion that:

- the report is a fair statement of the facts.
- the company has exercised its discretion in a reasonable manner over the period.
- the actions of the company have taken into account the appropriate rules and guidance.
- the interests of different classes of with profits policyholders have been fairly taken into account.

R J Houlston F.I.A.  
With-Profits Actuary

## **Reliance Mutual Insurance Society Limited**

### **BONUS DECLARATION**

as at 31 December 2005

The directors have declared reversionary bonuses for the main classes of business at the rates set out in the table below for the year ended 31 December 2005. Rates for other smaller classes of business may be obtained on application to the Society.

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 2006 and 31 December 2006. Current rates of interim bonus are equal to the rates declared for the year ended 31 December 2005.

A terminal bonus will be paid on claims arising by death, maturity or vesting under most classes of 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.

#### **Reliance Mutual With Profits Sub Fund**

All rates are expressed as percentages of the sum assured, with the exception of Reliance Ordinary Branch insurances where the rate is a percentage of the sum assured and attaching bonuses.

	<b>Bonus Rate</b>
Reliance ordinary branch whole life insurances and endowment insurances	2.00
Reliance industrial branch with profit policies	1.75
Burslem weekly tables with profit policies	1.67
Reliance industrial branch mortuary bonus policies without recurring endowments	1.50
Reliance industrial branch mortuary bonus with recurring endowments	1.40

#### **With Profits Sub Fund 2**

55% of the sum of all premiums paid since the last declaration, as at 31 December 2004, other than premiums that cover special risks, are available as a cash benefit (for life policies only) or may be converted to a reversionary bonus using an appropriate actuarial conversion factor. Non-premium paying life assurance policies use a notional equivalent premium in a similar calculation.

#### **With Profits Sub Fund 3**

The bonus is expressed as a percentage of the sum assured and attaching bonuses.

Assurances (excluding Adaptaplan and Family Savings Bond)	3.75
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#### **With Profits Sub Fund 4**

The bonus is expressed as a percentage of the annuity and attaching bonuses for deferred annuities and as a percentage of the basic annuity for annuities in payment.

Regular premium deferred annuities (series 1)	1.00
Single premium deferred annuities (series 1)	1.25
Deferred annuities (series 2)	1.00
Annuities in payment	3.00

**INDEPENDENT AUDITORS REPORT  
to the Members of  
RELiance MUTUAL INSURANCE SOCIETY LIMITED**

We have audited the financial statements of Reliance Mutual Insurance Society Limited for the year ended 31 December 2005 which comprise the Group Profit and Loss Account, the Group Balance Sheet, the Society Balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the Society's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 into 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 other 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 only the Directors' Report, the Chairman's Statement, and the Corporate Governance report.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Society and the group's affairs as at 31 December 2005 and of the Group's profit 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  
14 March 2006



# **Reliance Mutual Insurance Society Limited**

## **CONSOLIDATED PROFIT AND LOSS ACCOUNT**

for the year ended 31 December 2005

	Notes	2005 £000	Restated 2004 £000
<b>Technical Account – Long Term Business</b>			
<b>TECHNICAL INCOME</b>			
Gross premiums written	- continuing operations	82,812	98,158
	- discontinued operations	-	148,204
Outward reinsurance premiums		(10,117)	(9,451)
Earned premiums, net of reinsurance		72,695	236,911
Investment income	4	59,152	42,911
Unrealised gains	4	112,481	58,927
Other technical income	5	48,996	254,423
		293,324	593,172
<b>CLAIMS INCURRED</b>			
Claims paid	- gross amount	(85,880)	(83,558)
	- reinsurers' share	8,238	6,468
	- net of reinsurance	(77,642)	(77,090)
Change in provision for claims	- gross amount	(2,407)	(1,784)
	- reinsurer's share	152	160
	- net of reinsurance	(2,255)	(1,624)
Total claims incurred		(79,897)	(78,714)
<b>CHANGE IN OTHER TECHNICAL PROVISIONS</b>			
Long term business provision	- gross amount	(64,298)	(266,366)
	- reinsurers' share	4,564	3,282
	- net of reinsurance	(59,734)	(263,084)
Provision for linked liabilities, net of reinsurance	17	(114,129)	(197,666)
		(173,863)	(460,750)
Net operating expenses	6	(12,620)	(21,480)
Investment expenses and charges	7	(608)	(417)
Other technical charges	5	(503)	-
Tax attributable to long term business	10	(5,865)	(1,003)
Pension scheme (losses)/gains after tax	23	(848)	399
Transfer to fund for future appropriations	11	(19,120)	(31,207)
		(39,564)	(53,708)
<b>BALANCE on technical account</b>		Nil	Nil

There are no recognised gains or losses other than those shown above.  
The notes on pages 20 to 43 form an integral part of these financial statements.

# Reliance Mutual Insurance Society Limited

## BALANCE SHEETS

At 31 December 2005

	Notes	2005		Restated 2004	
Assets		Group £000	Society £000	Group £000	Society £000
<b>INTANGIBLE ASSETS</b>					
Goodwill	14	(507)	-	(546)	-
<b>INVESTMENTS</b>					
Investments in group undertakings	12	-	957	-	883
Other financial investments	13	601,379	600,589	515,487	514,765
		601,379	601,546	515,487	515,648
<b>PRESENT VALUE OF ACQUIRED IN FORCE BUSINESS</b>					
	14	4,420	4,420	4,920	4,920
<b>ASSETS HELD TO COVER LINKED LIABILITIES</b>					
	15	570,821	570,821	456,692	456,692
<b>REINSURERS' SHARE OF TECHNICAL PROVISIONS</b>					
Long term business provision	16	15,228	15,228	10,664	10,664
Claims outstanding	17	1,080	341	876	189
		16,308	15,569	11,540	10,853
<b>DEBTORS</b>					
Debtors arising out of direct insurance operations		390	390	292	292
Debtors arising out of reinsurance operations		51	51	2	2
Due from group undertakings		-	155	-	126
Other debtors	20	1,488	1,273	6,035	5,843
		1,929	1,869	6,329	6,263
<b>OTHER ASSETS</b>					
Tangible assets	19	22	22	33	33
Cash at bank and in hand		1,043	837	1,372	1,263
		1,065	859	1,405	1,296
<b>PREPAYMENTS AND ACCRUED INCOME</b>					
Accrued interest and rent		8,661	8,656	7,221	7,219
Deferred acquisition costs		946	946	1,409	1,409
Other prepayments and accrued income		55	55	-	-
		9,662	9,657	8,630	8,628
<b>TOTAL ASSETS</b>		<b>1,205,077</b>	<b>1,204,741</b>	<b>1,004,457</b>	<b>1,004,300</b>

# Reliance Mutual Insurance Society Limited

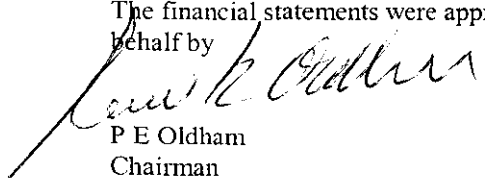
## BALANCE SHEETS

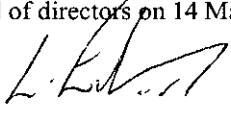
At 31 December 2005

	Notes	2005		Restated 2004	
Liabilities		Group £000	Society £000	Group £000	Society £000
<b>FUND FOR FUTURE APPROPRIATIONS</b>	11	92,526	93,033	73,406	73,952
<b>TECHNICAL PROVISIONS</b>					
Long term business provision	16	520,945	520,945	456,647	456,647
Claims outstanding	17	10,673	9,892	7,896	7,195
		531,618	530,837	464,543	463,842
<b>TECHNICAL PROVISIONS FOR LINKED LIABILITIES</b>	17	570,821	570,821	456,692	456,692
<b>PROVISIONS FOR OTHER RISKS AND CHARGES</b>					
Other provisions	21	960	960	1,300	1,300
<b>CREDITORS</b>					
Creditors arising out of direct insurance operations		1,112	1,112	1,017	1,017
Creditors arising out of reinsurance operations		2,796	2,796	3,330	3,330
Due to group undertakings		-	15	-	94
Other creditors including taxation and social security	22	2,245	2,168	1,700	1,604
		6,153	6,091	6,047	6,045
<b>ACCRUALS AND DEFERRED INCOME</b>		1,313	1,313	1,771	1,771
<b>TOTAL LIABILITIES EXCLUDING PENSION SCHEME LIABILITY</b>		1,203,391	1,203,055	1,003,759	1,003,602
<b>DEFINED BENEFIT PENSION LIABILITY</b>	23	1,686	1,686	698	698
<b>TOTAL LIABILITIES INCLUDING PENSION SCHEME LIABILITY</b>		1,205,077	1,204,741	1,004,457	1,004,300

The notes to pages 20 to 43 form an integral part of these financial statements.

The financial statements were approved by the board of directors on 14 March 2006 and were signed on its behalf by

  
P E Oldham  
Chairman

  
L M Etheridge  
Director

**NOTES TO THE ACCOUNTS**

at 31 December 2005

**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 2005.

The 2004 comparatives have been restated to take account of Financial Reporting Standard (FRS) 17 "Retirement Benefits" (see "Restatement" section on page 23).

**Basis of consolidation**

These accounts consolidate the results of the parent Society with those of The British Life Office Limited, Reliance Fire and Accident Insurance Corporation Limited, Reliance Unit Managers Limited, Reliance Administration Services Limited and Reliance Pension Scheme Trustee Limited. The results of Criterion Life Assurance Limited, which was sold during 2004, are included in the 2004 consolidated results up to the date of disposal. 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 full provisions of FRS17 became effective for the 2005 year-end and as a result the 2004 comparatives have been restated to remove the effect of SSAP24 and to include FRS17 figures.

**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.

## Reliance Mutual Insurance Society Limited

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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

Shares in group undertakings are included at current 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.

### Property Valuation

Properties are valued at open market value based on vacant possession. Valuations of investment properties are made by independent professionally qualified valuers every year. Unrealised gains and losses arising on the revaluation of properties are taken to the technical account – long term business.

In accordance with SSAP19 no depreciation or amortisation is provided in respect of freehold investment properties. The requirement of the Companies Act 1985 is to depreciate all properties. This requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that, as these properties were held for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP19 in order to give a true and fair view. Depreciation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or 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 long-term business provision is determined on the basis of recognised actuarial methods and in accordance with the FSA Rules (specifically those applying to the calculation of mathematical reserves contained in Chapter 7.3 of the Prudential Sourcebook), as modified by the Association of British Insurers Statement of Recommended Practice on Accounting for Insurance Business (December 2005). In determining the long-term business provision all relevant guidance from the Institute and Faculty of Actuaries, and in particular Guidance Notes 7 and 44, has been followed.

Full details of the methods, assumptions and sensitivities are given in note 16.

### Deferred acquisition costs

Deferred acquisition costs are assessed by 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.

## **Reliance Mutual Insurance Society Limited**

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### **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.

### **Operating leases**

Payments made under operating leases are charged on a straight line basis over the term of the lease.

### **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 is 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. The pension scheme is reported on using the provisions of FRS17. Included on the balance sheet is the aggregate pension scheme asset or liability net of a provision for deferred tax.

The standard requires certain items to be accounted for through the "Statement of Total Recognised Gains and Losses" which, neither the Group or Society prepare due to their mutual status. Instead, these items are shown separately in the technical account.

### **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, its useful economic life.

### **Present Value of Acquired In-force Business**

On acquisition of a portfolio of long-term insurance contracts, directly or through the acquisition of a subsidiary undertaking, the net present value of the expected after-tax cash-flows of the in-force business is capitalised in the balance sheet as an asset. The asset is amortised and the discount unwound on a systematic basis in proportion to the surplus emerging from the related contracts.

The carrying value of the asset is assessed annually using current assumptions in order to determine whether any impairment has arisen compared to the amortised acquired value based on assumptions made at the time of the acquisition. Any amortisation or impairment charge is recorded in the long-term business technical account in "other technical charges".

## Reliance Mutual Insurance Society Limited

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### Restatement

The 2004 comparatives for the Group and Society have been restated to reflect the implementation of FRS17 – “Retirement Benefits”.

The impact of this standard on the 2004 profit and loss account, before transfers to the fund for future appropriation (FFA), was £399k credit, including a deferred tax adjustment of £7k credit.

The transfer to the FFA was increased by an equivalent £399k resulting in no impact on the technical account balance.

The effect of the implementation was to reduce the FFA brought forward at 1 January 2005 by £401k (2004 : £793k).

## 2. Transfers of Business

### Eurolife Assurance Company Limited

On 11 July 2005 the High Court approved the transfer of the whole of the inforce long-term business of Eurolife Assurance Company Limited to Reliance Mutual Insurance Society Limited under Part VII of The Financial Services and Markets Act 2000. The transfer was effective on the same date.

Effects on Group and Society balance sheet.

	£000	£000
Investments		
Assets held to cover linked liabilities	25,030	
Other assets	23,802	
Prepayments and accrued income	570	
		49,402
Long term business provision		(47,963)
Claims outstanding		(1,439)
Net transfer of assets		NIL

## Reliance Mutual Insurance Society Limited

### 3. Gross Premiums Written

All premiums relate solely to long-term insurance contracts. Premiums in respect of discontinued operations relate to investment linked pensions business written in the UK.

	2005 £000	2004 £000
Gross premiums written in respect of continuing operations comprise:		
Direct insurance	82,812	98,156
Reinsurance inward	-	2
Reinsurance outward	(10,117)	(9,451)
	<u>72,695</u>	<u>88,707</u>
Premiums written by way of direct insurance comprise:		
Periodic premiums	19,573	22,377
Single premiums	63,239	75,779
	<u>82,812</u>	<u>98,156</u>
Life insurance contracts	23,096	30,325
Pensions	59,603	67,681
Sickness and disability contracts	113	150
	<u>82,812</u>	<u>98,156</u>
Investment linked contracts	19,526	21,266
Non linked contracts	63,286	76,890
	<u>82,812</u>	<u>98,156</u>
Geographical analysis		
United Kingdom	74,526	85,447
Germany	6,241	9,210
Finland	24	26
Italy	2,021	3,473
	<u>82,812</u>	<u>98,156</u>



## Reliance Mutual Insurance Society Limited

### New Business Figures

No material amounts of business were reinsured other than on a risk premium basis. No new inwards reinsurance was accepted. New premiums for continuing operations comprise:

	2005 £000	2004 £000
Periodic premiums:		
Ordinary branch life insurance		
Investment linked contracts	5	4
Non-linked contracts	144	1,671
Pensions business		
Investment linked contracts	12	29
Non-linked contracts	-	6
	<u>161</u>	<u>1,710</u>
Single premiums:		
Ordinary branch life insurance		
Investment linked contracts	-	178
Non-linked contracts	9,718	14,372
Pensions business		
Investment linked contracts	13,570	4,568
Non linked contracts	39,951	56,661
	<u>63,239</u>	<u>75,779</u>

### 4. Investment Return

	2005 £000	Restated 2004 £000
Investment income:		
Income from listed investments	39,439	29,936
Income from other investments	2,969	2,711
Net gains on realisation of investments	16,572	10,015
Value readjustments on investments	-	116
	<u>58,980</u>	<u>42,778</u>
Net expected return on pension scheme assets	172	133
	<u>59,152</u>	<u>42,911</u>
Unrealised gains on investments	112,481	58,927
Investment expenses (see note 7)	(594)	(417)
Net losses on realisation of investments (see note 7)	(14)	-
	<u>171,025</u>	<u>101,421</u>

## Reliance Mutual Insurance Society Limited

### 5. Other Technical Income and Charges

These relate to the profits or losses after taxation of Reliance Fire and Accident Insurance Corporation Ltd, Reliance Administration Services Ltd and Reliance Unit Managers Ltd, 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 Ltd and Criterion Life Assurance Ltd (in 2004 only). Other technical income in 2004 also includes the effects of the transfer of business from Family Assurance Friendly Society. In 2005 it includes the effects of the transfer of business from Eurolife Assurance Co Ltd (see note 2).

Other technical charges also include the amortisation charged in the year on the present value of acquired in-force business.

	2005 £000	2004 £000
a) <u>Other technical income</u>		
The British Life Office Ltd	-	64
Reliance Unit Managers Ltd	296	222
Reliance Fire and Accident Insurance Corporation Ltd	-	10
Reliance Administration Services Ltd	32	10
Criterion Life Assurance Ltd	-	56
Transfer from Family Assurance	-	254,061
Transfer from Eurolife Assurance Co Ltd	47,963	-
Adjustment to Criterion Life Assurance Ltd acquisition cost	705	-
	<u>48,996</u>	<u>254,423</u>
b) <u>Other technical charges</u>		
Reliance Fire and Accident Insurance Corporation Ltd	3	-
Amortisation of present value of acquired in-force business	500	-
	<u>503</u>	<u>-</u>

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.

### 6. Net Operating Expenses

	2005 £000	Restated 2004 £000
Acquisition costs	11,133	19,472
Change in deferred acquisition costs	463	245
Administrative expenses	2,353	4,446
Reinsurance commissions and profit participation	(1,329)	(2,683)
	<u>12,620</u>	<u>21,480</u>
Included within administrative expenses are:		
Auditors' fees for audit services	391	573
Depreciation of tangible assets	31	26
Operating lease rentals	188	188

In both 2005 and 2004, the Society paid the audit fees for the whole group.

## Reliance Mutual Insurance Society Limited

### 7. Investment Expenses and Charges

	2005 £000	2004 £000
Investment Expenses	594	417
Net losses on realisation of investments	14	-
	<u>608</u>	<u>417</u>

### 8. Employee Information

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

	2005 £000	2004 £000
Management	5	5
Administration	81	79
Home Service field force	19	24
	<u>105</u>	<u>108</u>

Staff costs for the above totalled:

	£000	Restated £000
Wages and Salaries	2,424	2,405
Social Security costs	210	215
Other Pension costs	847	611
	<u>3,481</u>	<u>3,231</u>

### 9. Directors' Emoluments

	2005 £000	2004 £000
Total directors' emoluments	257	221
Highest paid director (included in above figures)	<u>169</u>	<u>151</u>

In 2005 and 2004 retirement benefits accrued to the highest paid director in respect of qualifying service in the group's defined benefit pension scheme. The total accrued pension at the balance sheet date was £78,920 (2004: £67,709).

## Reliance Mutual Insurance Society Limited

### 10. Taxation

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

	2005 £000	Restated 2004 £000
UK Corporation Tax at 20% (2004 – 20%)	1,862	781
Deferred taxation:		
within technical provision for linked liabilities	2,219	207
FRS17 Deferred tax	(18)	(7)
movement in discount	(567)	189
other deferred taxation (see note 20)	2,257	(176)
Adjustments in respect of prior periods	112	9
	<u>5,865</u>	<u>1,003</u>

### 11. Fund for Future Appropriations

	2005 Group £000	Society £000
At 1 January 2005 as previously stated	73,807	74,353
Prior year adjustment	(401)	(401)
	<u>73,406</u>	<u>73,952</u>
At 1 January as restated	73,406	73,952
Transfer from profit and loss account	19,120	19,081
	<u>92,526</u>	<u>93,033</u>
At 31 December 2005		

The prior year adjustment relates to the implementation of FRS17.

### 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.

	2005		2004	
	Net Asset Value £000	Cost £000	Net Asset Value £000	Cost £000
The British Life Office Limited	1	30,000	1	30,000
The Reliance Fire and Accident Insurance Corporation Limited	418	1,000	449	1,000
Reliance Unit Managers Limited	397	50	323	50
Reliance Pension Scheme Trustee Limited	-	-	-	-
Reliance Administration Services Limited	141	100	110	100
	<u>957</u>	<u>31,150</u>	<u>833</u>	<u>31,150</u>

## Reliance Mutual Insurance Society Limited

On 16 February 2005 the Court of Session approved a petition to reduce the authorised share capital of The British Life Office Limited to £1,000,000 and its issued share capital to £1,000. As a result 29,999,000 issued ordinary shares have been cancelled, as has the negative balance on the Profit & Loss Account.

An unconditional contract for the sale of Criterion Life Assurance Ltd was entered into on 22 December 2004 and completed on 14 January 2005. At 31 December 2004 the consideration, which equalled the net asset value of the company, was outstanding, and in 2004 was included within "other debtors". There was no gain or loss on this sale.

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	Dormant
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 Administration Services Limited	England	Administration

### 13. Other Financial Investments

#### a) Group Balance Sheet

	2005		2004	
	Market Value	Cost	Market Value	Cost
	£000	£000	£000	£000
Shares and other variable yield securities and units in unit trusts	79,809	53,341	69,120	54,550
Debt securities and other fixed income securities	484,531	463,289	427,429	412,832
Properties	110	111	-	-
Loans secured by mortgages	396	396	457	457
Other loans	1,453	1,453	1,450	1,450
Deposits with credit institutions	35,080	35,080	17,031	17,031
	<u>601,379</u>	<u>553,670</u>	<u>515,487</u>	<u>486,320</u>

#### b) Society Balance Sheet

	2005		2004	
	Market Value	Cost	Market Value	Cost
	£000	£000	£000	£000
Shares and other variable yield securities and units in unit trusts	79,768	53,299	69,097	54,527
Debt securities and other fixed income securities	484,088	462,849	427,020	412,385
Properties	110	111	-	-
Loans secured by mortgages	396	396	457	457
Other loans	1,453	1,453	1,450	1,450
Deposits with credit institutions	34,774	34,774	16,741	16,741
	<u>600,589</u>	<u>552,882</u>	<u>514,765</u>	<u>485,560</u>

## Reliance Mutual Insurance Society Limited

### Analysis of market values of other financial investments

	2005		2004	
	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	52,768	52,768	38,691	38,691
Other listed investments	27,041	27,000	30,429	30,406
	<u>79,809</u>	<u>79,768</u>	<u>69,120</u>	<u>69,097</u>
Debt securities and other fixed income securities				
Listed on a recognised investment exchange	481,095	480,652	413,026	412,617
Other listed investments	3,436	3,436	14,403	14,403
	<u>484,531</u>	<u>484,088</u>	<u>427,429</u>	<u>427,020</u>

### 14. **Goodwill and Present Value of Acquired in force Business**

	Goodwill	2005 Present value of Acquired Business	Goodwill	2004 Present Value of Acquired Business
	£000	£000	£000	£000
<u>Cost</u>				
At 1 January	(585)	4,920	(585)	-
Acquisition during year	-	-	-	4,920
	<u>(585)</u>	<u>4,920</u>	<u>(585)</u>	<u>4,920</u>
At 31 December	(585)	4,920	(585)	4,920
	<u>(585)</u>	<u>4,920</u>	<u>(585)</u>	<u>4,920</u>
<u>Amortisation</u>				
At 1 January	39	-	-	-
Amortisation during year	39	500	39	-
	<u>78</u>	<u>500</u>	<u>39</u>	<u>-</u>
At 31 December	78	500	39	-
	<u>78</u>	<u>500</u>	<u>39</u>	<u>-</u>
Net book value at 31 December	(507)	4,420	(546)	4,920
	<u>(507)</u>	<u>4,420</u>	<u>(546)</u>	<u>4,920</u>
Net book value at 1 January	(546)	4,920	(585)	-
	<u>(546)</u>	<u>4,920</u>	<u>(585)</u>	<u>-</u>

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.

The present value of acquired in force business relates to the transfer of business from Family Assurance Friendly Society. The value is being amortised on a systematic basis, subject to an annual impairment test.

## Reliance Mutual Insurance Society Limited

### 15. Assets held to cover linked liabilities

#### a. Group Balance Sheet

	2005		2004	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Assets held to cover linked liabilities	570,821	405,670	456,692	362,709

#### b. Society Balance Sheet

	2005		2004	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Assets held to cover linked liabilities	570,821	405,670	456,692	362,709

### 16. Long Term Business Provision

The long term business provision is derived from the mathematical reserves calculated for statutory solvency purposes as follows:

	2005		2004	
	Group £000	Society £000	Group £000	Society £000
Gross amount				
Mathematical reserves, before bonus	519,230	519,230	454,823	454,823
Cost of bonus added at year end	1,628	1,628	1,713	1,713
Zillmer adjustment	87	87	111	111
Long term business provision	520,945	520,945	456,647	456,647
Reinsurance				
Mathematical reserves, before bonus	15,228	15,228	10,664	10,664
Long term business provision	15,228	15,228	10,664	10,664
Net amounts				
Mathematical reserves, before bonus	504,002	504,002	444,159	444,159
Cost of bonus added at year end	1,628	1,628	1,713	1,713
Zillmer adjustment	87	87	111	111
Long term business provision	505,717	505,717	445,983	445,983

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

## Reliance Mutual Insurance Society Limited

### Valuation Method

The long term business provision is calculated using the net premium method for with profits business. A gross premium method was used for the other main classes of business other than credit life assurance, which was valued by accumulating premiums received less commissions and claims paid.

For unit linked business, the method involves estimating future policy cash flows and discounting them to the valuation date allowing for probabilities of occurrence. The method also tests that the projected technical provisions at each future duration would be sufficient to cover any net cash outflow at that time and are increased to the extent required to satisfy this.

The valuation method includes an explicit allowance for existing vested reversionary bonus. It allows for future reversionary bonus on with profits business implicitly, by a reduction in the valuation rate of interest. No allowance is made for terminal bonus; this bonus is not guaranteed and the rates may be altered at any time.

The valuation method makes no allowance for voluntary discontinuance of contracts other than unit linked pension policies. Provisions released on discontinuance are no less than the termination values paid, so this is a prudent assumption. For unit linked pension business, voluntary discontinuance normally results in policies being retained in paid-up status. In this case future margins may be inadequate to cover future expenses, and the provision is set as the greater of the amount assuming immediate conversion to paid-up status and that assuming premiums continue throughout.

The interest assumption is based on fixed interest index yields for regular premium contracts, and on the yields on the backing assets for single premium contracts (principally annuities). Movements in interest rates thus affect the long term business provision, but there will also be a similar movement in asset values. Mortality assumptions are based on published statistics from the actuarial profession adjusted, in the case of smoker annuities, in the light of expected future experience.

### Valuation basis

The valuation used the following assumptions for the main classes of business:

		2005	2004
<u>RM WPSF (Ordinary Branch)</u>			
Interest	with profit insurances	2.05%	2.25%
	without profit insurances	2.80%	3.00%
	pension annuities	4.25%	4.65%
	pension without profit insurances	3.50%	3.75%
Mortality	with and without profit insurances	A92	A92
	pension annuities for smokers/non smokers	PA92	PA92
	other pension annuities	115% PCA92	115% PCA92

Annuitant mortality was adjusted to incorporate factors for future improvements published by the Continuous Mortality Investigation Bureau of the Faculty and Institute of Actuaries. For smoker and non smoker annuities published rates from the low impact cohort tables were used, but the percentage of the published rates was varied with age. Specimen percentages used were:

	Smoker Annuities	Non Smoker Annuities
Ages up to 70	150%	67.5%
Age 80	133.3%	74.2%
Age 90	121.4%	78.9%

In the prior year flat percentages of 170% and 80% were used for smokers and non smokers respectively. For other aggregate mortality annuities the medium impact cohort was used in both the current and prior year.



## Reliance Mutual Insurance Society Limited

		2005	2004
Renewal Expenses (per annum)	Premium paying policies	£29.70	£23.00
	Single premium unit-linked bonds	£22.28	£17.25
	Pension single premium policies	£10.40	£8.05
	Paid-up policies	£10.40	£8.05
Claim Expenses (per claim)	Life policies	£80.00	£90.00
	Pension policies	£220.00	£247.50
Expense inflation		4.0%	4.0%
Tax relief on expenses	Life policies	20%	20%
Unit linked fund growth rate (before management charges)	Life funds	4.45%	4.75%
	Pension funds	4.60%	4.90%

Except where indicated, the other sub funds use the same basis elements as those set out above; only differences are indicated below:

### RM WPSF (Industrial Branch)

Mortality		ELT 15	ELT 15
Renewal Expenses	As a percentage of premium plus per policy	25%	25%
		£10.75	£10.45
Claim Expenses	per claim	£14.90	£14.90

### With Profits Sub Fund 2

Interest	Life insurances	2.60%	2.80%
	Pension insurances	3.25%	3.50%
Renewal expenses	Premium paying policies	£22.55	£21.80
	Single premium and paid-up policies	£7.90	£7.63
Claim expenses	Life policies	£78.94	£76.29
	Pension policies	£169.15	£163.48
Expense inflation		3.5%	3.5%

### With Profits Sub Fund 3

Interest	Life insurances	2.60%	2.80%
Mortality	Deferred annuities before vesting	80% A92	80% A92
Renewal expenses	Premium paying policies	£29.32	£28.34
	Single premium and paid-up policies	£10.27	£9.92
Claim expenses	Life policies	£87.96	£85.01
Expense inflation		3.5%	3.5%

### With Profits Sub Fund 4

Interest	with profit deferred annuities before vesting	2.50%	2.75%
	with profit deferred annuities after vesting	3.25%	3.50%
	annuities in payment	3.95%	4.25%
	deferred annuities before vesting	80% A92	80% A92
Renewal expenses	Premium paying policies	£32.22	£31.14
	Single premium and paid-up policies	£11.28	£10.90
Claim expenses	Pension policies	£193.22	£186.84
Expense inflation		3.5%	3.5%

The with profits sub funds were established as a result of the transfers of business from Criterion Life Assurance Limited and Family Assurance Friendly Society during 2004.

## Reliance Mutual Insurance Society Limited

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### Options and Guarantees

Options and guarantees of the following types are included in the business written by the Society.

1. Guaranteed annuity rate options

These exist on certain unit-linked contracts where the fund at retirement (which is not guaranteed) is used to purchase an annuity at a guaranteed rate. The guaranteed rate is beneficial and almost all clients exercise the option. Technical provisions include £896,000 in respect of the additional costs of the guarantees, assuming all are exercised. The cost of the guaranteed rate is proportional to the value of the underlying policy, and increases as interest rates reduce and/or longevity improves. The provision is established on a prudent basis.

2. Maturity and surrender value guarantees

Various unit linked policies have minimum guaranteed values either at maturity or on surrender at various dates. An additional provision of £520,000 is held within the long-term business provision for these guarantees. The provision is assessed using stochastic simulations of future investment scenarios. A provision is held that will be adequate at a 99% probability level.

3. Guaranteed insurability options

These exist on various policies where the insured can take out a further contract on normal rates without providing evidence of health at that time. The experience is that this option is not exercised (fewer than ten clients have exercised it in the last five years). In most cases the option is only exercisable on an event such as the birth of a child or moving house. Total provisions of £282,000 are held within the long-term business provision in respect of these options.

4. Guaranteed cash options

These exist on various deferred annuity contracts in WPSF4. The option is only valuable if interest rates are in excess of 8% p.a. With improving mortality this rate increases. All affected policies are with-profits, and no specific provision is held for this option bearing in mind current interest rates.

### Sensitivities

The factors with the greatest influence on the long term business provision are the interest and expense assumption and, for annuities in payment, the mortality assumption.

An increase in the valuation rates of interest of 0.4 percentage points for life assurance policies, 0.5 percentage points for pension policies in deferment, and 0.95 percentage points for annuities in payment would reduce the long term business provision by £34.1m.

A reduction of 10% in the expense assumptions for all contracts would reduce the long term business provision by £4.1m.

A change in the mortality improvement factors for smoker annuities from the low impact to the medium impact projection would increase the long-term business provision by £1.1m. Similarly changing the projection for other annuities from the medium impact to the high impact, would increase the long term business provision by £12.9m.

# **Reliance Mutual Insurance Society Limited**

## **17. Technical Provisions**

	Long Term Business Provision £000	Claims Outstanding £000	Technical Provisions for Linked Liabilities £000
<b>a. <u>Group Balance Sheet</u></b>			
Gross technical provisions			
Balance at 1 January 2005	456,647	7,896	456,692
Movement for the year	64,298	2,777	114,129
Balance at 31 December 2005	520,945	10,673	570,821
Reinsurers' Share			
Balance at 1 January 2005	10,664	876	-
Movement for the year	4,564	204	-
Balance at 31 December 2005	15,228	1,080	-
Net technical provisions			
Balance at 31 December 2005	505,717	9,593	570,821
Balance at 1 January 2005	445,983	7,020	456,692

Technical provisions for claims outstanding include amounts relating to the Reliance Fire and Accident Insurance Corporation Limited. The change in these provisions is included within "other technical income" in the profit and loss account.

	Long Term Business Provision £000	Claims Outstanding £000	Technical Provisions for Linked Liabilities £000
<b>b. <u>Society Balance Sheet</u></b>			
Gross technical provisions			
Balance at 1 January 2005	456,647	7,195	456,692
Movement for the year	64,298	2,697	114,129
Balance at 31 December 2005	520,945	9,892	570,821
Reinsurers' Share			
Balance at 1 January 2005	10,664	189	-
Movement for the year	4,564	152	-
Balance at 31 December 2005	15,228	341	-
Net technical provisions			
Balance at 31 December 2005	505,717	9,551	570,821
Balance at 1 January 2005	455,983	7,006	456,692

## Reliance Mutual Insurance Society Limited

### 18. Capital and Liabilities – Regulatory Capital Position

#### a) Capital Statement

2005

	RM With Profits Sub Fund	With Profits Sub Fund 2	With Profits Sub Fund 3	With Profits Sub Fund 4	Total Life Business	Consolidation adjustments	Group Total
	£000	£000	£000	£000	£000	£000	£000
Fund for Future Appropriation	61,594	4,326	4,164	22,949	93,033	(507)	92,526
<b>Adjustments on to regulated basis</b>							
positive valuation differences	86	-	-	-	86	-	86
inadmissible assets	(5,663)	-	-	-	(5,663)	-	(5,663)
<b>Total available capital resource</b>	<b>56,017</b>	<b>4,326</b>	<b>4,164</b>	<b>22,949</b>	<b>87,456</b>	<b>(507)</b>	<b>86,949</b>

#### **Analysis of policyholders' liabilities**

With Profits	20,646	10,386	7,797	135,909	174,738
Unit Linked	570,821	-	-	-	570,821
Non Participating	268,741	10	1,161	61,067	330,979
<b>Total technical liabilities, net of reinsurance</b>	<b>860,208</b>	<b>10,396</b>	<b>8,958</b>	<b>196,976</b>	<b>1,076,538</b>

2004

	RM With Profits Sub Fund	With Profits Sub Fund 2	With Profits Sub Fund 3	With Profits Sub Fund 4	Total Life Business	Consolidation adjustments	Group Total
	£000	£000	£000	£000	£000	£000	£000
Fund for Future Appropriation	49,347	4,026	3,800	17,180	74,353	(546)	73,807
<b>Adjustments on to regulated basis</b>							
positive valuation differences	69	-	-	-	69	-	69
inadmissible assets	(8,469)	-	-	-	(8,469)	-	(8,469)
<b>Total available capital resource</b>	<b>40,947</b>	<b>4,026</b>	<b>3,800</b>	<b>17,180</b>	<b>65,953</b>	<b>(546)</b>	<b>65,407</b>

#### **Analysis of policyholders' liabilities**

With Profits	21,319	10,096	7,624	135,082	174,121
Unit Linked	456,692	-	-	-	456,692
Non Participating	205,966	-	1,241	64,655	271,862
<b>Total technical liabilities, net of reinsurance</b>	<b>683,977</b>	<b>10,096</b>	<b>8,865</b>	<b>199,737</b>	<b>902,675</b>

## Reliance Mutual Insurance Society Limited

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The company and the group are subject to a number of regulatory capital tests. In particular the available capital resources need to exceed the group's capital resource requirements at all times. Capital resource requirements comprise the Insurance Capital Requirements of the insurance companies in the group, the Resilience Capital Requirement of the Society and the Capital Resource Requirement of Reliance Unit Managers Limited.

Separate capital resource requirements are calculated for the four with profits sub funds, but there is no requirement that each individually needs to have available capital resources to ensure that its capital resource requirements are met, although this was the case throughout the year. The documents constituting the four sub funds, and the Society's Principles and Practices of Financial Management, indicate that surplus assets in any of the sub funds can only be used to enhance the benefits of appropriate policies within that sub fund. However should any sub fund have a shortfall of assets over guaranteed benefit liabilities, recourse is available to surplus assets within other sub funds.

As a mutual, the group has only limited access to external sources of capital. Hence the group's capital management objectives are:

- To match the profile of its assets and liabilities, taking into account the nature, term and currency of the liabilities.
- To achieve the maximum long-term return on assets not required to match liabilities, commensurate with an appropriate level of risk.

The capital statements show an increase in available capital resources of £20.841m during the year. The increase was primarily due to investment performance during the year. As the group is not required to report results on a "realistic" basis, the policyholder liabilities do not include allowance for future final bonuses. The increase in capital resources should enable future final bonuses, which are not guaranteed, to be increased.

There have been a number of changes in the assumptions used in the valuation of liabilities, which have impacted directly on the available capital resources. These include:

- Changes to the expense assumptions, set out in note 16 which have reduced available capital resources by £2.840m.
- Changes to smoker annuitant mortality set out in note 16 reduced available capital resources by £0.172m
- Other technical changes in the valuation system and programs have reduced available capital resources by £1.193m

Changes in the valuation interest assumptions have affected the value of liabilities, but these have been broadly matched by changes in assets values, resulting in no material effect on available capital resources. Sensitivities of the valuation basis to changes in assumptions are reported in note 16.

At 31 December 2005 available capital represented 320% of the group's total capital resource requirements (2004 – 249%).

## Reliance Mutual Insurance Society Limited

### 19. Tangible Assets

In 2005 and 2004 all tangible fixed assets were owned by the parent Society.

	Computer Hardware £000	Office Equipment £000	Total £000
Cost:			
Brought forward	240	111	351
Additions	20	-	20
At 31 December 2005	260	111	371
Depreciation:			
Brought forward	224	94	318
Charge for the year	17	14	31
At 31 December 2005	241	108	349
Book value at 31 December 2005	19	3	22
Book value at 31 December 2004	16	17	33

### 20. Deferred Taxation

	Group £000	Society £000
Deferred tax asset at 1 January 2005	1,917	1,917
Movement in undiscounted deferred tax asset	(2,257)	(2,257)
Movement in discount	567	567
Deferred tax asset at 31 December 2005	227	227

Net deferred tax assets are held within "other debtors". Net deferred tax provisions are included within "provisions for other risks and charges".

	Group		Society	
	2005 £000	2004 £000	2005 £000	2004 £000
Deferred tax asset/(provision) on:				
Unrealised gains on investments	(2,476)	(420)	(2,476)	(420)
Unrelieved expenses	2,516	2,794	2,516	2,794
Deferred acquisition costs	(151)	(228)	(151)	(228)
Undiscounted deferred tax asset/(provision)	(111)	2,146	(111)	2,146
Discount	338	(229)	338	(229)
Discounted deferred tax asset/(provision)	227	1,917	227	1,917

At 31 December 2005 deferred tax assets totalling £1.988m (2004 - £2.228m) have not been recognised in the Society's balance sheet because there are no foreseeable future profits and gains against which the losses giving rise to the asset can be offset.

## Reliance Mutual Insurance Society Limited

### 21. Provisions for Other Risks and Charges

All provisions are held within the Society's balance sheet.

	Former Branch Offices £000	Total £000
Provision at 1 January 2005	1,300	1,300
Costs charged against provision	(162)	(162)
Amount credited to profit and loss account	(178)	(178)
Provision at 31 December 2005	960	960

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.

### 22. Other Creditors including taxation and social security

	2005		2004	
	Group £000	Society £000	Group £000	Society £000
Taxation and Social Security	2,165	2,091	1,018	923
Other creditors	80	77	682	681
	2,245	2,168	1,700	1,604

### 23. Pension Costs

The majority of the Society's employees are members of 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. During the year ended 31 December 2005 the Society made contributions of £517,000 (2004 – £410,000). 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 2004 and this was updated to 31 December 2005 by qualified independent actuaries.

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 1 April 2004 using the projected unit method with the following assumptions:

Valuation rate of interest - before retirement	7.325% p.a.
- after retirement	4.875% p.a.
Earnings inflation including promotional increases	5.90% p.a.
Rate of increase in retail price index	2.90% p.a.

At the valuation date the market value of the scheme's assets was £27.8m. The ongoing contribution rate determined by the funding method, which the employer has agreed to pay, is 26.0% of pensionable salaries of current active members.

The scheme was funded at a level of 105% of the value of liabilities.

## Reliance Mutual Insurance Society Limited

### Assumptions

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

At 31 December	2005 %	2004 %	2003 %
Rates of inflation	2.8	2.8	2.8
Rates of salary increases (inflation and promotion)	5.8	5.8	5.8
Rate of increase for pension in payment (non-GMP)	2.8	2.8	2.8
Rate of increase for deferred pensions in deferment (non-GMP)	2.8	2.8	2.8
Discount rate	4.7	5.2	5.3

### Analysis of net pension scheme assets and liabilities

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

	Fair Value	Expected long-term rate of return	Fair Value	Expected long-term rate of return	Fair Value	Expected long-term rate of return
At 31 December	2005 £000	2005 %	2004 £000	2004 %	2003 £000	2003 %
Market value of scheme assets:						
Equities	14,394	7.9	10,312	8.0	9,434	7.8
UK Government Fixed interest securities	9,103	4.0	8,764	4.4	8,496	4.4
Corporate bonds (inc. overseas bonds)	5,900	4.5	5,763	4.9	5,730	4.9
Property	3,627	6.3	2,628	6.3	3,210	7.3
International Hedge Funds	705	7.9	-	8.0	-	-
Other	525	4.5	2,236	4.5	314	3.5
Total market value of scheme assets	34,254		29,703		27,184	
Present value of scheme liabilities	(36,153)		(30,489)		(28,351)	
Deficit in the scheme	(1,899)		(786)		(1,167)	
Related Deferred Tax	213		88		131	
Net pension scheme liability	(1,686)		(698)		(1,036)	



# **Reliance Mutual Insurance Society Limited**

	2005 £000	2004 £000
<u>Analysis of movements in consolidated profit and loss account</u>		
Investment income:		
Expected return on pension scheme assets	1,745	1,636
Interest cost of pension scheme liabilities	(1,573)	(1,503)
	<u>172</u>	<u>133</u>
Pension cost		
Current service cost	847	611
Past service costs	-	-
	<u>847</u>	<u>611</u>
<u>Analysis of pension scheme gains after tax</u>		
Actual return less expected return on pension scheme assets	3,272	1,362
Experience gains and losses arising on scheme liabilities	(335)	(317)
Effect of changes in demographic and financial assumptions	(3,892)	(596)
	<u>(955)</u>	<u>449</u>
Actuarial (losses)/gains recognised	(955)	449
Deferred tax thereon	107	(50)
	<u>(848)</u>	<u>399</u>
Pension scheme (losses)/gains after tax		

<u>History of experience gains and losses</u>	2005 £000/%	2004 £000/%	2003 £000/%	2002 £000/%
Actual return less expected return on pension scheme assets:	3,272	1,362	729	(2,181)
Percentage of scheme assets at balance sheet date:	9.6%	4.6%	2.7%	(8.5%)
Experience gains and losses arising on scheme liabilities:	(335)	(317)	(77)	(185)
Percentage of scheme liabilities at balance sheet date:	(0.9%)	(1.0%)	(0.3%)	(0.7%)
Total amount recognised as part of actuarial gains and losses:	(955)	449	(1,703)	(2,766)
Percentage of scheme liabilities at balance sheet date:	(2.6%)	1.5%	(6.0%)	(11.0%)

## Movement in deficit during the year before tax

	2005 £000	2004 £000
Deficit at beginning of year	(786)	(1,167)
Expected return on pension scheme assets	1,745	1,636
Interest cost of pension scheme liabilities	(1,573)	(1,503)
Current service costs	(847)	(611)
Contributions	517	410
Past service costs	-	-
Actuarial (losses)/gains	(955)	449
	<u>(1,899)</u>	<u>(786)</u>
Deficit at end of year		

## Reliance Mutual Insurance Society Limited

### 24. Contingent Liabilities and Other Commitments

At 31 December 2005 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 (2004 - seven) such leases expiring between 2008 and 2015. The total estimated liabilities in respect of these leases amounts to £2.3m (2004 - £2.6m). A provision in respect of future liabilities, after offsetting projected income from subleases on some of the properties, is held as described in note 21 above.

The Society has a few disagreements with other parties outstanding as at 31 December 2005. The amounts involved are not material and no additional provision has been made in respect of these items.

### 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:

	2005 £000	2004 £000
Expiring within 2 to 5 years	-	188
Expiring after 5 years	188	-
	<u>188</u>	<u>188</u>

### 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 year 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:

	2005		2004	
	No of Units 000	Unit Value £000	No of Units 000	Unit Value £000
a. <u>Group holdings</u>				
Units purchased	946	4,132	4,928	19,880
Units sold	16	73	35	141
Holding at 31 December	<u>54,980</u>	<u>277,150</u>	<u>54,045</u>	<u>230,828</u>
b. <u>Society holdings</u>				
Units purchased	946	4,132	1,220	5,024
Units transferred from other group companies	-	-	33,466	133,429
Units sold	16	73	150	601
Holding at 31 December	<u>54,971</u>	<u>277,108</u>	<u>54,040</u>	<u>230,805</u>

## Reliance Mutual Insurance Society Limited

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In addition the Reliance Pension Scheme invested in The British Life Unit Trust. 1,837,000 units were held throughout the year. The value of the holding at 31 December 2005 was £9,260,317 (2004 – £7,846,000)

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

All directors and some 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 £27,902 (2004 - £36,085)

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