RELIANCE MUTUAL
INSURANCE SOCIETY LIMITED

ANNUAL REPORT AND AUDITED GROUP FINANCIAL STATEMENTS 2010

Registered in England No 491580

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Directors

S Creedon FIA, ASA, MAAA, FSAI	Chairman
W Au MSc FCMA	
W J Cain BCom FCA	(Resigned 27 May 2010)
M Goodale BA FIA	
R P J Randall BSc FIA	
F B Sanjana BA FCII	
N A Sherry ACII	

Senior Management

M Goodale BA FIA	Chief Executive
P G Bowden BSc FCII	Head of Strategy Implementation
R E Cuming	Investment Manager
R C Eastwood FCA	Head of Risk and Corporate Governance and Company Secretary
C J Lerpiniere BSc ACII	Head of Operations
C K Mills FFA,	Chief Actuary and Actuarial Function Holder
C A Whatford BSc ACA	Financial Controller

Auditors

PricewaterhouseCoopers LLP
Hay's Galleria
One Hay's Lane
London SE1 2RD

Bankers

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

Registered and Administrative Office

Reliance House
6 Vale Avenue
Tunbridge Wells
Kent TN1 1RG

BOARD OF DIRECTORS

S CREEDON FIA, ASA, MAAA, FSAI (Age 59)
(Appointed 11/03/2008, Chairman 01/06/2008)

Chairman
Non-executive Director

Seamus Creedon is a qualified actuary He is a management consultant and, until recently, a partner at KPMG where he led the UK actuarial practice from 2000 to 2003 and was the deputy leader globally Previously he was Chief Executive of Bank of Ireland's life assurance business and also at Abbey Life Ireland He is a current member of the council of the Institute of Actuaries and is project manager for Groupe Consultatif Actuariel European Solvency II project

W AU MSc FCMA (Age 54)
(Appointed 28/10/2009)

Chairperson of the Audit & Risk Committee
Non-executive Director

Wai is our most recently appointed non-executive director She currently has a portfolio of senior advisory roles including Accenture Financial Services UK Prior to these roles, she was Chief Executive of Tactica Insurance and before that held several senior management posts at Barclays Bank, culminating as Director of Global Servicing She has also held the role of UK Finance Director (Life and General) for Royal Sun Alliance

M GOODALE BA FIA (Age 55)
(Appointed 01/07/2006)

Chief Executive
Executive Director

Our Chief Executive, Mark Goodale, is a qualified actuary Prior to joining the Society he was a director and the general manager of Ecclesiastical Life Limited, and prior to that Chief Financial Officer of Manulife (UK) Mark is on the Board of Directors of the Association of Financial Mutuals

R P J RANDALL BSc FIA (Age 61)
(Appointed 01/07/2004)

Senior Independent Director
Non-executive Director

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 Chairman and a non-executive director of a tele-underwriting company, Morgan Ash

F B SANJANA BA FCII (Age 55)
(Appointed 01/07/2004)

Chairman of the Investment Committee
Non-executive Director

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 He is a non-executive director of Police Mutual

N A SHERRY ACII (Age 53)
(Appointed 24/03/2009)

Non-executive Director

Nigel has over 30 years' experience in the financial services industry, including service as Director of Financial Planning at Pearl, Retail Sales Director at Prudential and most recently as Chief Operating Officer and acting Chief Executive of MGM Assurance

CHAIRMAN'S STATEMENT

2010 has been another challenging year for the Group, but with a welcome reprieve from more buoyant financial markets, particularly in the latter part of the year

The focus on capital management has continued throughout the year and together with market improvements, this has resulted in an improvement in the Group's Capital resources and an increase in the regulatory solvency ratio from 167% to 229% Capital resource adequacy also has improved on a realistic assessment

There has been continued development of risk management, governance, systems and processes to ready the Group for the Solvency II regime

Investment Markets

UK Government bond markets performed relatively well until the final quarter of 2010 when stubbornly high inflation figures caused fixed interest markets to sell off Over the year, the FTSE Actuaries Government Securities UK Gilts Total Return Index rose by 7 2%

Global equity markets were supported by reasonable earnings and dividend growth and economic data, which was generally favourable In the UK, the All-Share Index advanced by some 8% to mid April However, the sovereign debt crisis seriously changed investors' perception of risk, volatility increased and markets retreated By 1 July, in the UK the All-Share Index had fallen by some 17% from its April high, bringing the year to date decline to nearly 10% European governments acted to support their debt markets, which together with an expectation of further quantitative easing and continuation of the low interest rate policy in the developed world, produced a strong 23% recovery in the All-share to end the year up by 10 9% or 14 5% on a total return basis

Our main unit linked funds, Life, Pension and Trust Managed Funds, produced index beating rises of 18%, 18 7% and 22 0% respectively

Member Bonuses

2010 was a more stable year for bonuses with most with profit policies seeing improved payouts In particular, former Hearts of Oak with profits policies saw a restoration of their special final bonuses (95% restoration for life policies), as the financial health of their sub fund continued to improve

All bonus changes were made with the aim of ensuring that we treat with profit policyholders fairly and in accordance with the Society's established Principles and Practices of Financial Management (see page 20)

New business

In the interests of protecting the solvency of the Society, new business volumes were maintained at similar levels to the latter part of 2009, and by the end of the year sales were 8% down on 2009

Premises

The Group moved office during the year having purchased a suitable building in 2009 The new office was formally opened by Greg Clark MP, the local MP and Minister of State The Society now has a more suitable environment in which to work and continue to develop the business

Managing the costs of the Society

The Society undertook a restructure of its client services department during the year, to take account of continued process efficiencies and the decrease in numbers of policies As a result, eight members of staff were made redundant

Also during the year the defined benefit pension scheme was closed to future accrual, to reduce the impact of the scheme on the capital strength of the sponsoring employer, the Society, in the light of the increasing costs and risks inherent in such schemes The Society now offers its staff a defined contribution scheme

The Board regrets having to take such actions, but has done so to protect the interests of its members Throughout these difficult times and for the whole of 2010, the support, dedication and hard work of our staff was, as always, exemplary I would like to thank them for their continued contribution to the success of the Group as we move into our centennial year

Managing the interests of members in the future

In October 2009 the Financial Services Authority ("FSA") wrote to all mutual insurers and friendly societies that manage with profits policies The FSA asked firms to review the fairness of treatment of policyholders in with profits funds This was the culmination of a three year discussion between the mutual industry and the regulator on the subject

Establishing fair treatment for each mutual insurer and friendly society differs due to the specific circumstances and history of each firm

The Board has worked with the FSA throughout 2010 to demonstrate that the Society has, in the past, been managed in a way that is fair to all members, and that it will continue to do so in the future

Work on this project will continue into 2011 ensuring that the Society distributes surplus capital in such a way to ensure that employment of capital

- Is fair to all members and satisfies the requirements of "treating customers fairly"
- Is sufficient to support the existing business
- Enables the business to continue with its existing strategy
- Satisfies and complied with the regulatory requirements of the FSA

With profits governance

In June 2010 the FSA issued a report on its findings from an industry wide review into the operations of with profits funds A Consultative Paper has been issued in February 2011 which takes their thinking forward and proposes rule changes The Society is confident that its governance standards for with profits business are sound, but will of course take appropriate actions to implement any new requirements coming out of this process

The Board of the Society take seriously the duty of directors to act fairly between all members of the Society One change the Society has already made in 2010 has been to introduce a new Committee of the Board, the Fair Member Benefits Committee, which as the name suggests, will oversee the fair treatment of all members, including with profit policyholders This Committee first met in November 2010

Retail Distribution Review

The new requirements arising from this are due to come into force in 2012 Due to the Society's business model, the immediate impact will not be great, but the Society has kept a close eye on developments to the extent they may affect the longer term strategy of the Society including what opportunities the changes may create

Board

The Board remains committed to a high standard of corporate governance We continued to apply the relevant principles and comply with the relevant provisions of the Annotated Combined Code on Corporate Governance for Mutual Insurers during 2010, except as set out in the corporate governance report

In May 2010, Jack Cain, a board member for 9 years, retired I would like to thank him for his contribution to the Group over this period His position as senior independent director has been filled by Jim Randall, a board member with 6 years service to the Society Jack has been replaced in his role as chairperson of the Audit and Risk Committee by Wai Au

Solvency II

Preparation for Solvency II, the Europe wide regulatory reporting regime effective 1 January 2013, has had a significant impact on the Group's workload in 2010 The project covers numerous areas including, but not limited to, risk, data management, actuarial modelling and financial reporting The convergence of UK accounting practice to International financial reporting standards also forms part of this project Work on Solvency II will continue throughout 2011 and 2012 requiring significant input from our own staff and external advisers

The Future

We continue to be interested in opportunities that will add further to the scale of the organisation for the long term benefit of members

The protection and strengthening of the Society's capital position remains a priority, with a view to ensuring we can withstand any future market turbulence The security and longer term interests of our members continue to be of paramount importance to the Board

We will continue to build an infrastructure that will deal with the demands of the Solvency II regime

S CREEDON
Chairman
24 March 2011

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 December 2010 The registered number of Reliance Mutual Insurance Society Limited ("the Society") is 491580

Principal Activities

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

Business Review

The results of the Group for the year, as set out on page 23, show a transfer to the fund for future appropriations of £13 6m (2009 transfer to the fund of £10 2m) The total assets of the group are £1,712 1m (2009 £1,590 7m)

The continued improvement in investment markets in 2010 has been a key factor in the increase of £121 4m in the total assets of the Group, with the main contributor being unit linked funds, which have increased by £72 0m in the year net of claims payments

The Board continued to look to protect and strengthen the capital position of the Society Exposure to equity markets in the main fund of the Society (RMWPSF) was reduced further with a view to protecting capital by reducing the impact of any future market volatility

The Group has continued to develop systems and controls appropriate for an organisation of our size and complexity Systems and processes are also being developed to ensure that the Group is in a position to comply with the Solvency II regime after 2012

Operating Environment

The environment in which the Group operates, both as a long term insurer and a mutual entity, continued to be challenging in 2010

Further work was undertaken throughout 2010 in relation to the FSA's request at the end of 2009 for all mutual insurers and friendly societies to review the fair treatment of policyholders in with profits funds During 2010 the Board have been reviewing past actions and future strategies to ensure that the Society has been, and continues to be, fair to all members

Principal Risks and Uncertainties

Risk management within the Group is addressed through a variety of policies, procedures and internal controls Management consider risks on an ongoing basis and formally review risk assessments and report to the Board periodically The Board also review strategic risks and risk appetite twice a year Compliance with regulation is a high priority of the Group and is regularly considered by management The Audit & Risk Committee is responsible for satisfying itself that financial controls operate effectively

The Group has developed a framework for identifying the risks to which it is exposed and their impact on economic capital This process is risk based and uses Individual Capital Assessment principles to quantify capital requirements and to ensure that the Group has adequate capital to support the growth of the business and to meet the requirements of policyholders and regulators

The principal risks from our life insurance business arise from the need to be able to pay our obligations to policyholders as they fall due and to maintain regulatory margins of solvency Market and other risks, relating to the performance of those financial assets supporting policyholder liabilities are monitored by our Investment Committee on a continuous basis

The recent European Court of Justice ruling on gender discrimination is effective from 21 December 2012 However, there is uncertainty within the industry about business issued between 21 December 2007 and 21 December 2012 and whether any amendments to rates on policy terms will be needed once the new law is effective

The Group's assessment of uncertainties is set out in note 1b to the financial statements and details of financial risk management can be found in note 2 to the financial statements

Future Outlook

With the economic and regulatory environment remaining challenging, the Group will continue to focus on achieving a robust capital position going forward and will continue to seek growth through product sales to niche markets and selective acquisition of blocks of business to add further to the scale of the organisation for the long term benefit of policyholders In 2011 the Society is launching an enhanced annuity to replace the very successful smoker annuity product The Society is also continuing to look at opportunities to work alongside others including working with a distributor to sell a term assurance product in continental Europe, this product will be launched in the first half of 2011 Discussions also continue on the potential acquisitions of blocks of business

The Board is committed to achieving a clear distribution policy which balances fair rewards for members holding with profit policies with adequate security of benefits for all members and other policyholders Members will be invited to endorse specific proposed practices during 2011

The Group will also continue to build an infrastructure that deals with the demands of the Solvency II regime and ensure that it is in a position to cope with growth whether it be through new business or acquisition

Key Performance Indicators ("KPIs")

The following KPIs are used by the Board to assist it in monitoring the Group

	2010	2009	
New Business (APE)	£5 1m	£5 5m	Annual Premium Equivalent (APE) is new regular premiums plus 10% of single premiums (including amounts in respect of investment contracts)
Total Assets	£1,712 1m	£1,590 7m	
Increase in fund for future appropriations	£13 6m	£10 2m	See note 12 to the financial statements for further details
Fund for future appropriations	£104 9m	£91 3m	
Regulatory solvency ratio	228%	167%	
Number of Employees (FTE)	65	78	Full Time Equivalent (FTE) counts full time staff as 1 FTE and part time as 0 5 FTE

The Board has reviewed the KPIs above and compared them to the business plan and is pleased to report the improvements made in the year They illustrate how the Group continues to recover following the turbulence in the world economy during 2008 and early 2009 Further details of factors which have affected the Group's capital resources, and hence solvency, can be found in note 21

Our capital resources are measured against regulatory capital requirements and actions are available to manage the risks to solvency from future turbulence The Society is keeping these under constant review with the intention of cutting risk exposures where appropriate In addition to the regulatory solvency ratio quoted above, the Society is also required to manage the capital resources on a realistic basis

Actuarial Valuation and Bonus Declaration

An investigation of the long-term liabilities at 31 December 2010 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 20

Directors

The directors listed on page 2 held office throughout the year, unless otherwise stated Messrs Goodale and Randall retire by rotation and, being eligible, offer themselves for re-election All directors are members and policyholders of Reliance Mutual Insurance Society Limited Messrs Goodale, Creedon and Sherry 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 2006

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 Consultative Committee Sadly, improved efficiencies and decreases in policy numbers over the past two years resulted in a restructuring programme within our client services department being undertaken during 2010 This led to 8 redundancies being made Three further members of staff left the Society when the cleaning contract for our new office was outsourced

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 During the year this scheme was closed to future accruals for all but 2 members In its place, the Society has introduced a defined contribution scheme See note 27 to the financial statements for further details

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the Group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society and the Group and of the profit or loss of the Society and Group for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Society's transactions and disclose with reasonable accuracy at any time the financial position of the Society and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Society and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the Group's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Statement of disclosure of information to auditors

The directors in office at the time this report is approved, confirm

- so far as each director is aware, there is no relevant audit information of which the Group's auditors are unaware, and

- each director has taken all the steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of the information

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

These are discussed further in note 2 to the financial statements

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

R Eastwood, Company Secretary
24 March 2011

CORPORATE GOVERNANCE

Compliance with the Combined Code

The Board is committed to a high standard of corporate governance The Board considers that it has applied the relevant principles and complied with the relevant provisions of the Annotated Combined Code for Mutual Insurers (the Code) throughout this reporting period unless the contrary is stated

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the financial statements

The Board continues to monitor industry developments in respect of Solvency II, which is due to be implemented in 2013, and are proceeding on the basis that Solvency II capital requirements can be accommodated by management of the Balance Sheet

The external auditor has not reported on the corporate governance statement and hence the Code was not complied with in this respect in 2010 The Board does not consider such a report to be a cost effective use of resources The Board is committed to ensuring that compliance with the Annotated Combined Code (and the Annotated UK Corporate Governance Code in future years) is maintained effectively BDO LLP, the Group's internal auditor, confirmed that procedures remain appropriate

The Board

The Board takes overall responsibility for the management of the Group, determining

- strategic principles and objectives, annual plans and budgets (and any material changes to them), performance monitoring and corrective action
- risk management processes including risk appetite
- organisational structure
- pension and remuneration policies

The Board authorises all strategic transactions, major contracts and items of major capital expenditure, not in the ordinary course of business, except those defined in its delegated authorities document It determines the basis to be used for the valuation of liabilities, declares annual and final bonuses, and ensures that the Actuarial Function Holder and the With Profits Actuary have access to such information as they require to discharge their respective duties

The Board approves the annual regulatory return to the Financial Services Authority (FSA), the Principles and Practices of Financial Management, Individual Capital Adequacy Standards and accompanying risk profiles, including ICAS quantification The Board ensures that the Society complies with the rules and requirements of the FSA, the Annotated Combined Code and all other applicable legislation, and directs the work carried out on the FSA's requirements for Treating Customers Fairly It approves the Society's new business and acquisition strategy and targets and monitors performance against forecasts and also approves acquisitions and decisions to cease to operate all or any material part of the Society's business

The Board approves the Society's operational policy in relation to the overall administration of business and has responsibility for the Society's system of internal control and its exposure to risk (and the systems used to identify, mitigate and monitor risks) The Board also ensures that suitable accounting policies are used and applied consistently in the preparation of the financial statements, that reasonable and prudent judgements and estimates are made in preparing the financial statements, and that applicable accounting standards are followed - ensuring that proper accounting records are kept It approves the annual report and group financial statements, including regulatory returns, appoints or removes the external auditors to be put to the members for approval, following the recommendation of the Audit and Risk Committee, ensures that the Audit and Risk Committee conducts an annual review of its effectiveness, ensures adequate succession planning for the Board and senior management, approves the division of responsibilities between the Chairman and the Chief Executive, ensures there is an appropriate apportionment of responsibilities among the Chief Executive and senior managers to effectively manage the business, appoints or removes the Senior Independent Director and ensures he or she fulfils the Annotated Combined Code requirements, ensures suitable arrangements are made by which staff of the Society may, in confidence, raise concerns about possible improprieties, defines the members, powers and terms of reference of, and considers and approves reports from, any Board Committee to which tasks or responsibilities are delegated, determines changes to the membership, structure, size and composition of the Board, following recommendations from the Nomination and Remuneration Committee, determines the remuneration policy for the company secretary and senior managers and acts on the decisions of the Nomination and Remuneration Committee regarding the remuneration of the directors, approves the general salary review budget, appoints or removes the company secretary, determines the Society's capital structure, considers the balance of interests between members, employees, customers and the community, reviews the Society's overall corporate governance arrangements, considers reports on the views of the Society's members, and approves its terms of reference and the scheme of delegation

During the year the Board comprised the Chairman, one executive director and four non-executive directors (except during the period preceding Jack Cain's retirement in May) The Code requires a strong presence on the Board of both executive and non-executive directors Whilst the Chief Executive is the only executive director, members of management are required to attend meetings to provide information concerning key areas of the Group's operations Details of each director are shown on page 3 The Board considers that each of its non-executive directors is independent in character and judgement

The Chairman met the independence criteria upon appointment The Board usually has six regular meetings in the year as well as two strategy review meetings Other meetings are convened as required In 2010 there were two additional meetings An agenda is prepared for all meetings and appropriate papers are provided to the directors in advance of each meeting Attendance at the Board and Board committee meetings during 2010 was as follows

	Board		Investment Committee		Nomination and Remuneration Committee		Audit and Risk Committee		Surplus Distribution Review Committee	
Director	Meetings to attend	Meetings attended	Meetings to attend	Meetings attended	Meetings to attend	Meetings attended	Meetings to attend	Meetings attended	Meetings to attend	Meetings attended
S Creedon	10	10	-	-	3	3	3	3	3	3
M Goodale	10	10	6	6	3	3	3	3	-	-
W Au	10	10	-	-	3	3	3	3	3	3
RPJ Randall	10	10	-	-	3	3	3	3	-	-
F B Sanjana	10	10	6	6	3	3	3	3	3	3
N A Sherry	10	10	-	-	3	3	3	3	-	-
W J Cain	5	4	-	-	1	1	1	1	-	-

Directors have full access to the services of the company secretary and may take independent professional advice at the Group's expense if they judge it necessary to discharge their responsibilities as directors Independent professional advice was obtained by the Surplus Distribution Review Committee (see below)

The division of responsibilities between the Chairman and the Chief Executive is set out in writing and was agreed by the Board following the annual review of its terms of reference and scheme of delegation in August 2010 The Chairman has no commitments that impinge on his responsibilities as Chairman The Chief Executive has no commitments that impinge on his responsibilities as Chief Executive

The evaluation of the Board as a whole and of its committees, and the performance appraisals of the Chairman, Chief Executive and the non-executive directors were carried-out, using an internally devised process, in September 2010 Appropriate actions to ensure that individual contributions, and those of the Board and its committees, remain effective will continue to be taken

All directors appointed by the Board must stand for reappointment at the Annual General Meeting (AGM) following their appointment All directors are subject to reappointment at intervals of no more than three years The letter of appointment makes it clear that standard service would be expected to be two terms of three years, with the possibility of a third term if that appears suitable A specimen letter of appointment for non-executive directors is available on request and on the Group's website

Board Committees

Audit and Risk Committee

The directors who served on the committee during the year were Messrs W J Cain (as chair until his retirement), R P J Randall, F B Sanjana, N A Sherry and Ms W Au who took over as chair in May 2010 The committee meets at least three times a year and at one meeting meets with the auditors in the absence of management The committee monitors the integrity of the financial statements of the Group, reviewing significant financial reporting issues and judgements contained in them, and keeps under review the effectiveness of internal controls, risk management processes and internal and external auditing It reviews and challenges, where necessary, the consistency of, and changes to, accounting policies on a year-on-year basis It oversees and monitors the development of the Group's risk and control framework including identification, management, reporting and appetite for risk It also reviews the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters No non-audit services were provided by the external auditors during 2010 The committee is satisfied that this arrangement did not impact on the auditors' independence or objectivity The terms of reference of the committee are available on request and on the Group's website

The minutes of the Audit and Risk Committee meetings are circulated to the Board after each meeting

Nomination and Remuneration Committee

The former Remuneration Committee, comprising the full Board and chaired by the Senior Independent Director, became the Nomination and Remuneration Committee on 20 August 2010 The terms of reference set the committee's role as having delegated authority to set remuneration for the Board, to make recommendations on the structure of remuneration for the senior management team and ensure effective Board deliberation by leading the process for Board appointments and reviewing performance annually

The Board has authorised the committee, within the scope of its responsibilities to

<u>Nomination</u>

- Annually review the size and composition of the Board and evaluate the balance of skills, independence, diversity, knowledge and experience
- Act upon the results of the annual review
- Identify suitable candidates for Board appointments
- Plan for the orderly succession of new directors to the Board
- Determine the membership and chairmanship of the Board Committees

<u>Remuneration</u>

- Set the remuneration for all executive directors including pension rights and any compensation payments
- Set levels of remuneration for non-executive directors to reflect the time-commitment and responsibilities of the role but not including any performance-related elements
- Devise performance-related elements of remuneration to form a significant proportion of the total remuneration package of executive directors - designed to include financial and non-financial performance criteria that align their interests with those of members, give keen incentives to perform at the highest level, are compatible with the company's risk policies and systems, and promote the long-term success of the Society
- Judge where to position remuneration relative to comparable companies using such comparisons with caution, in view of the risk of an upward ratchet of remuneration levels with no corresponding improvement in performance
- Carefully consider what compensation commitments (including pension contributions and all other elements) executive directors' terms of appointment would entail in the event of early termination and avoid rewarding poor performance
- Recommend and monitor the level and structure of remuneration for senior management and for the organisation as a whole

Executive directors whose remuneration is being considered are asked to leave the meeting The Board is satisfied that levels of remuneration are appropriate to attract, retain and motivate directors of the quality required to run the Group successfully, and has carefully considered the position related to similar organisations in the Group's sector and also the increased time commitment and extended responsibilities within the modern role of director Remuneration packages do not include any long-term incentive schemes, but the committee ensures that performance-related elements of remuneration are designed to align the interests of executive directors with those of members and provide keen incentives to perform at the highest level There are no notice periods in excess of one year for executive directors 2010 was the second year that a resolution was put to the AGM to provide members with an opportunity to vote regarding the Remuneration Report The result of the second vote mirrored the first one in showing 96% in favour of the report Results from this vote will continue to be used to advise future decisions

Investment Committee
Mr Sanjana is chairman of this committee The other director who is a member of this committee is Mr Goodale - the other permanent member is Mr Cuming, the Investment Manager The terms of reference of the committee are available on request and on the Group's website The minutes of the committee's meetings are circulated to the Board after each meeting

Fair Member Benefits Committee
This committee was established in November 2010 Its role is to make recommendations to the Board to ensure that all members, both with profit and non profit, are treated fairly when financial management decisions are made It receives and reviews advice from the With Profits Actuary on the exercise of discretion in respect of with profits business, reviews bonus recommendations made by the Actuarial Function Holder, and recommends bonus rates, for approval by the Board - that treat all customers fairly It approves the Principles and Practices of Financial Management document (PPFM), ensures that the Society has complied with the terms of its PPFM, and produces, on behalf of the Board, an annual report to with profits policyholders stating whether the Society believes it has complied with the obligations contained in the PPFM and the evidence and reasons for that belief It ensures that the With Profits Actuary is able to provide independent judgment in assessing compliance with the PPFM, addressing conflicting rights and interests and making any statement or report required to with profits policyholders in addition to the annual report It receives regular reports regarding the financial performance of the Society and the resulting impact on long-term prospects, reviews and develops key customer communication, including in relation to its own operation, and oversees the management of the Society's estate balancing any competing or conflicting rights and interests of all customers

Surplus Distribution Review Committee
This committee was established to provide a review by independent non-executive directors, led by the Chairman, into the decisions of the Board in relation to the distribution of surplus to with profits policyholders in the period 2001 to 2009 In particular the sub-committee has sought to determine the basis on which the surplus was split in 2001 and whether this was fair to with profits policyholders, as well as consider whether this was consistent with a reasonable interpretation of (i) the principles, rules and guidance from time to time issued by the FSA, (ii) the Society's Memorandum and Articles of Association, (iii) Applicable legal requirements (including company law) from time to time in force, (iv) relevant legal advice received by the board, and (v) policy documentation, policy marketing documentation and any other documentation which sets out what a with profits policyholder might expect to receive from a with profits policy

The Committee completed this review in December 2010 reaching the conclusion that the Board had acted properly, fairly and in the best interests of members

Member Relations

The Board is committed to developing member relations The member relations strategy is available on request and in the members' section of the Group's website In 2010, voting members received at least 20 working days' notice of the Annual General Meeting All directors and senior managers attended the AGM and facilities were provided afterwards to enable members to question them further and meet other members Not all information recommended by the Code was provided with the AGM notice The information was detailed in the notice and then sent to all members upon request The Board considered this a more cost effective use of resources

In order to encourage greater engagement with members, each notice of the 2010 Annual General Meeting included a freepost envelope to facilitate the return of the proxy voting form 4,852 members took the opportunity of voting in this manner The additional section on the reverse of the proxy voting form continued to give members the freedom to provide whatever feedback they wanted to in relation to the activities of their Society 153 members responded and their thoughts or requests were answered and details of the process and of the individual feedback were provided to the Board In 2010 the Annual General Meeting was held at the Charing Cross Hotel in Central London, with the aim of ensuring that it remains accessible to a membership that is spread nationwide 35 members attended the meeting and their contribution to the day, particularly in the discussions with directors, management, staff and fellow members both before and after the meeting, was greatly appreciated

The Group's website has been maintained to ensure that members are provided with easy access to facilities to request information, assistance or to provide feedback

As the Society seeks to ensure that it is fit for the future, the views of the membership will play an increasing role in determining the way forward Plans for 2011 involve seeking input from members not only in and around General Meetings but also involving focus groups, targeted research and questionnaires specific to the Society's strategy

Under the Code, the Senior Independent Director provides an alternative point of contact to the Chairman and Chief Executive for members who have concerns that cannot be addressed through normal channels Following Mr Cain's retirement, Mr Randall was appointed the Senior Independent Director and he can be written to at the Group's registered office or contacted on SID@reliancemutual co uk Mr Randall has received tailored induction in relation to the role and has attended the Society's Head Office in order to be briefed on the member relations strategy and to discuss and understand those members' issues and concerns, that might arise on a day-to-day basis, with the Client Services Manager

REMUNERATION REPORT

The whole Board acts as the remuneration committee Remuneration packages do not include any long-term incentive schemes Appointments are not for a fixed term but one-third of the members of the Board stand for reappointment at each AGM Directors who are 65 years of age or over must stand for reappointment at each AGM Mr Goodale is the only executive director and his notice period is one year Other than contractual notice there is no entitlement to termination payments

Following a review of the approach for setting Board remuneration in 2008, the committee put in place a process whereby Board remuneration is set with reference to a comparative set of financial services companies This review is done annually with changes made from 1 October An additional fee is paid to the chairperson of the Investment and Audit and Risk Committees as well as the chairman of Reliance Pension Scheme Trustees Limited

A similar process is followed for setting the Chief Executive's pay In addition a performance related bonus scheme is in place, which is payable once a year based on the achievement of objectives set at the beginning of the year

Mr Goodale serves as non-executive director of the Association of Financial Mutuals He receives no remuneration for this service

Directors' Emoluments

		Salary/ Fees	Benefits	Total y/e 31.12.2010	Total y/e 31.12 2009
		£	£	£	£
S Creedon	Chairman	58,502	-	58,502	52,001
M Goodale	Chief Executive	265,873	29,720	295,593	259,827
W Au		32,169	-	32,169	4,835
W J Cain	Retired 27 May 2010	14,167	-	14,167	34,002
R P J Randall		29,250	-	29,250	29,001
F B Sanjana		39,250	-	39,250	39,000
N A Sherry		29,251	-	29,251	22,374
C B Russell	Resigned 2 May 2009	-	-	-	11,304
		468,462	29,720	498,182	452,344

M Goodale's salary of £265,873 included a bonus of £72,606 (2009 £50,179)

Directors' Pension Information

This relates solely to M Goodale Non-Executive directors do not receive pension benefits

	2010	2009
	£	£
Defined benefit scheme		
- Accrued annual pension at end of year	11,819	10,182
- Transfer value at end of year	165,358	135,823
Defined contribution scheme		
- Society contribution	10,132	-

DIRECTORS' REPORT TO WITH PROFITS POLICYHOLDERS

During 2010, the Board of Reliance Mutual established a new sub-committee, the Fair Member Benefits Committee The role of this Committee is to make recommendations to the Board to ensure that all members, both with profit and non profit, are treated fairly when financial management decisions are made All directors serve on the Committee and meetings are held with the With Profits Actuary and the Actuarial Function Holder in attendance The Chairman of the Society is the Chairman of the Committee

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 Society will be managed The PPFM was amended with effect from 1 February 2010 There were no significant changes to the Principles

Changes were made to simplify the Practices in WPSF5 used to calculate the amounts payable under with profits policies The number of with profits policies has reduced within WPSF5 such that there was little added benefit in continuing with the previous approach and a more simplified approach was justified

Changes were made to the Practices in WPSF6 relating to the operation of the unitised with profits fund The PPFM now makes it clear that the Society does not operate a shadow fund to aid in the calculation of any market value reductions

Reliance Mutual has six separate with profit funds Five 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 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 2010 as follows

- In February 2010 annual bonus rates were declared for all the funds These were set at the same rates as in the previous year

- For RM WPSF final bonus rates were set in February based upon results at the end of 2009 and applied from 1 March 2010 As described in the PPFM, final bonuses are augmented to allow for the distribution of profits from non-profit business and the inherited estate within RM WPSF The augmentation rate was reduced from 570% to 520% at this time to take account of the cost of derivatives which the Society had purchased in 2009 to protect it from adverse equity movements during 2009 This change, together with the continued impact of poor equity performance in 2009 resulted in overall payouts falling In September 2010, following the annual review of the augmentation rate, the rate was increased to 620% reflecting improvements in the financial health of the fund

- For the with profit sub funds WPSF2, WPSF3, WPSF4 and WPSF5, final bonus rates were set in February based upon results at the end of 2009 and applied to claims from 1 March 2010 These funds all benefited from improvements in equity performance during 2009 and in WPSF2 and WPSF3 bonuses increased but in WPSF4 and WPSF5 the equity gains were offset by increases in liabilities

- The financial position of the with profit sub fund WPSF6 improved during 2009 allowing the special final bonus to be increased back to its original level for life policies and to 95% of its original level for pensions business from 1 March 2010 Following a review of the management of the unitised with profits business in WPSF6 during 2010, it was agreed that the uniform market reduction factor of 5% would be replaced by factors dependent upon the date units were purchased from 1 January 2011

- At the end of August the Society made changes to the approach used to value liabilities in WPSF2, WPSF3, WPSF4, WPSF5 and WPSF6 The impact of this change was to allow terminal bonus rates to be increased in WPSF2, WPSF3, WPSF4 and WPSF5 The impact on WPSF6 was less but was sufficient to allow the special final bonus rate for pensions business to be increased to 100% The impact of the change in WPSF4 was significant and reversed the decrease which the fund experienced in March 2010 As a result the increase was backdated to 1 March 2010

The Directors are of the opinion that the actions that have been taken on discretionary benefits are in accordance with the PPFM and are appropriate for the circumstances of the Society

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 profits policyholders and the actions and decisions relating to with profits policyholders made by the company during 2010

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 FIA
With Profits Actuary

BONUS DECLARATION
as at 31 December 2010

The directors have declared annual bonuses for the main classes of business at the rates set out in the table below for the year ended 31 December 2010 Rates for other smaller classes of business may be obtained on application to the Society Annual declarations of guaranteed reversionary bonuses for the business now forming WPSF5 and WPSF6 had been discontinued by the predecessor companies before the businesses were acquired

In addition an interim bonus will be added to the sum assured or annuity of relevant with profits policies under which a claim arises by death, maturity or vesting between 1 January 2011 and 31 December 2011 Current rates of interim bonus are equal to the rates declared for the year ended 31 December 2010

A final bonus may 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 final 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

	Bonus Rate (%)
Reliance ordinary branch whole life insurances and endowment insurances	2 00
Reliance industrial branch with profits policies	1 75
Burslem weekly tables with profits 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 2009, 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

Main classes of assurance (excluding Adaptaplan and Family Savings Bond)	3 75

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 Group and parent financial statements (the "financial statements") of Reliance Mutual Insurance Society Ltd for the year ended 31 December 2010 which comprise the consolidated Profit and Loss Account, the Group and Society Balance Sheets and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 8 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's and Society's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and the Society's affairs as at 31 December 2010 and of the Group's result for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the Society, or returns adequate for our audit have not been received from branches not visited by us, or
- the Society's financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

G. Phillips

Gavin Phillips (Senior Statutory Auditor)
For and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
LONDON
24 March 2011

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2010

Technical Account – Long Term Business		Notes	2010 £000	2009 £000
TECHNICAL INCOME				
Gross premiums written		3	52,239	56,992
Outward reinsurance premiums			(15,916)	(16,793)
Earned premiums, net of reinsurance			36,323	40,199
Investment income		4	80,076	65,791
Unrealised gains on investments		4	119,185	145,021
Other technical income, net of reinsurance		5	3,653	3,520
			239,237	254,531
CLAIMS INCURRED, NET OF REINSURANCE				
Claims paid	- gross amount		(108,535)	(107,409)
	- reinsurers' share		16,580	18,216
	- net of reinsurance		(91,955)	(89,193)
Change in provision for claims	- gross amount		74	(846)
	- reinsurer's share		71	(184)
	- net of reinsurance		145	(1,030)
Total claims incurred			(91,810)	(90,223)
CHANGE IN OTHER TECHNICAL PROVISIONS, NET OF REINSURANCE				
Long term business provision	- gross amount	19	(37,601)	(31,031)
	- reinsurers' share	19	1,412	2,033
	- net of reinsurance		(36,189)	(28,998)
Technical provision for linked liabilities, gross and net of reinsurance		20	(85,637)	(103,262)
			(121,826)	(132,260)
Net operating expenses		7	(8,566)	(6,757)
Investment expenses and charges		8	(1,477)	(1,204)
Other technical charges, net of reinsurance		5	(361)	(434)
Tax attributable to long term business		11	265	(12,716)
Actuarial losses on pension scheme		27	(1,847)	(756)
Transfer (to)/from the fund for future appropriations		12	(13,615)	(10,181)
			(25,601)	(32,048)
BALANCE ON THE LONG TERM BUSINESS TECHNICAL ACCOUNT			-	-

There are no recognised gains or losses other than those shown above
The notes on pages 26 to 71 form an integral part of these financial statements
All activities are continuing

BALANCE SHEETS
At 31 December 2010

Assets	Notes	2010 Group £000	2010 Society £000	2009 Group £000	2009 Society £000
INTANGIBLE ASSETS					
Goodwill	16	(312)	-	(351)	-
INVESTMENTS					
Land and Buildings	13	3,827	3,827	8,537	8,537
Investments in group undertakings	14	-	1,097	-	1,060
Other financial investments	15	906,745	906,230	855,344	854,823
		910,572	911,154	863,881	864,420
PRESENT VALUE OF ACQUIRED IN FORCE BUSINESS	16	2,619	2,365	2,982	2,718
ASSETS HELD TO COVER LINKED LIABILITIES	17	744,861	744,861	672,878	672,878
REINSURERS' SHARE OF TECHNICAL PROVISIONS					
Long term business provision	18	31,267	31,267	29,855	29,855
Claims outstanding	19	124	117	385	46
		31,391	31,384	30,240	29,901
DEBTORS					
Debtors arising out of direct insurance operations		365	365	461	461
Debtors arising out of reinsurance operations		214	214	220	220
Amounts owed by group undertakings		-	123	-	87
Other debtors		2,930	2,672	1,260	1,003
		3,509	3,374	1,941	1,771
OTHER ASSETS					
Tangible assets	22	508	508	510	510
Cash at bank and in hand		2,306	473	2,288	1,147
		2,814	981	2,798	1,657
PREPAYMENTS AND ACCRUED INCOME					
Accrued interest and rent		15,902	17,093	14,965	15,522
Deferred acquisition costs	23	391	391	481	481
Other prepayments and accrued income		201	201	130	130
		16,494	17,685	15,576	16,133
TOTAL ASSETS EXCLUDING PENSION SCHEME ASSET		1,711,948	1,711,804	1,589,945	1,589 478
DEFINED BENEFIT PENSION ASSET	27	148	148	790	790
TOTAL ASSETS INCLUDING PENSION SCHEME ASSET		1,712,096	1,711,952	1,590,735	1,590,268

BALANCE SHEETS
At 31 December 2010

Liabilities	Notes	2010 Group £000	2010 Society £000	2009 Group £000	2009 Society £000
FUND FOR FUTURE APPROPRIATIONS	12	104,896	104,954	91,281	91,368
TECHNICAL PROVISIONS					
Long term business provision	18	833,210	833,210	797,526	797,526
Claims outstanding	19	12,401	12,267	13,126	12,653
		845,611	845,477	810,652	810,179
TECHNICAL PROVISIONS FOR LINKED LIABILITIES	20	744,861	744,861	672,878	672,878
PROVISIONS FOR OTHER RISKS AND CHARGES	25	810	810	628	628
DEPOSITS RECEIVED FROM REINSURERS		10,345	10,345	11,389	11,389
CREDITORS					
Creditors arising out of direct insurance operations		1,458	1,458	1,427	1,427
Creditors arising out of reinsurance operations		126	126	103	103
Amounts owed to group undertakings		-	50	-	35
Other creditors including taxation and social security	26	2,953	2,835	1,129	1,013
		4,537	4,469	2,659	2,578
ACCRUALS AND DEFERRED INCOME		1,036	1,036	1,248	1,248
TOTAL LIABILITIES		1,712,096	1,711,952	1,590,735	1,590,268

The notes to pages 26 to 71 form an integral part of these financial statements

The financial statements were approved by the Board of directors on 24 March 2011 and were signed on its behalf by

S Creedon
Chairman

M Goodale
Director

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of presentation

The financial statements are prepared on a going concern basis (see note 1b) and under the historical convention as modified by the revaluation of investments, and on the basis of the accounting policies set out below The Group financial statements have been prepared under the provisions of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance groups In implementing these provisions the Group has adopted a modified statutory solvency basis for determining technical provisions

The financial statements comply with applicable accounting standards In addition, the Group has complied with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 and revised in December 2006

Compliance with Statement of Standard Accounting Practice ('SSAP') 19 'Accounting for investment properties' requires departure from the requirements of the Companies Act 2006 relating to depreciation and an explanation of the departure is given in the accounting policy on "Investments – Land and buildings" below

1a Significant accounting policies

Basis of consolidation

These financial statements consolidate the results of the parent Society with those of its subsidiaries, The Reliance Fire and Accident Insurance Corporation Limited, Reliance Unit Managers Limited, Reliance Administration Services Limited, FS Management Limited and Reliance Pension Scheme Trustee Limited As permitted by Section 230 of the Companies Act 2006, no profit and loss account of the parent Society is presented

Classification of contracts

The Group classifies its products as insurance, investment or investment with discretionary participation features Insurance contracts are those contracts that transfer significant insurance risk Such contracts may also transfer financial risk Contracts that do not transfer significant insurance risk are investment contracts As a general guideline, the Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur A contract that is classified as an insurance contract continues to be treated as such until all rights and obligations under the contract expire

A discretionary participation feature (dpf) is a contractual right held by a policyholder to receive additional payments as a supplement to guaranteed benefits Such contracts are commonly known as "With Profits" or "participating" contracts With Profits contracts may be classified as either insurance contracts or investment contracts with dpf In both cases the requirements of FRS 26 do not apply However, dpf contracts classified as investment are disclosed as such in the FRS 29 disclosure of financial instruments

Some unit linked contracts, where significant insurance risk is not transferred are classified as investment contracts In addition to these unit linked contracts there are certain non linked non profit (non participating) contracts that have also been classified as investment contracts Investment contracts are accounted for using deposit accounting, under which amounts collected are credited and amounts paid are debited directly to the balance sheet as an adjustment to the liability to policyholders

Premiums

Premiums received and reinsurance premiums paid relate to insurance and participating investment contracts They are accounted for when due for payment

Fee income from investment contracts

Fees receivable from investment contracts (included in "other technical income") and investment income and interest payable on contract balances are recognised in the Profit and Loss Account in the year they are accrued, unless they relate to services to be provided in future years, in which case they are deferred and recognised as the service is provided

Claims

Claims paid and reinsurance recoveries relate to insurance and participating investment contracts 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 or the technical provision for linked liabilities Reinsurance recoveries are credited to match the relevant claim incurred Claims payable include the related internal and external claims handling costs 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

Long-term business is ceded to reinsurers under contracts to transfer out part or all of the following risks mortality, morbidity, investment, persistency and expenses Such contracts are accounted for as insurance contracts provided the risk transfer is significant

Investment return

Investment income and expenses include dividends, interest, rents, gains and losses on the realisation of investments, interest payable on financial liabilities carried at amortised cost using the effective interest method 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 carried at fair value are calculated as the difference between net sale proceeds and the purchase price 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

Investments in group undertakings

Investments in group undertakings are included at current value in the Society's balance sheet and any changes are taken through the profit and loss account

Land and buildings

Land and buildings are valued at open market value based on the RICS valuation and certificate basis Full valuations are made by independent professionally qualified valuers annually and during times of market volatility are reviewed at the balance sheet date Unrealised gains and losses arising on the revaluation of properties are taken to the technical account

In accordance with SSAP 19 no depreciation or amortisation is provided in respect of the freehold investment properties The requirement of the Companies Act 2006 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 SSAP 19 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

Other financial investments

The Group classifies its financial assets into the following categories

- Shares and other variable yield securities and units in unit trusts – at fair value through profit and loss,
- Derivatives – at fair value through profit and loss,
- Debt securities and other fixed income securities - at fair value through profit and loss,
- Loans and receivables

Management determines the classification of its investments at initial recognition

a) Shares and other variable yield securities and units in unit trusts, debt securities and other fixed income securities

Financial assets are classified into this category at inception if they are acquired with the view that they are capable of being sold in the future prior to maturity or if so designated by management to minimise any measurement or recognition inconsistency with the associated liabilities

Financial assets designated as at fair value through profit and loss are those that are managed and whose performance is evaluated on a fair value basis Information about these financial assets is provided internally on a fair value basis to management The Group's investment strategy is to invest in listed equity securities and fixed interest rate debt securities and derivatives designated upon initial recognition at fair value through profit and loss

Fair value for listed investments is the bid price excluding accrued income on fixed interest holdings Unit trust and OEIC holdings are valued at bid price Assets held to cover the technical provision for linked liabilities are valued at bid price Other listed investments are valued at bid price excluding accrued income on fixed interest holdings

b) Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value Changes in the fair value are recognised immediately in the Profit and Loss Account Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, such as discounted cash flow models and options pricing models, as appropriate All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i e the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i e without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets

Embedded derivatives that are not closely related to their host contracts and meet the definition of a derivative are separated and fair valued through the profit and loss account

c) Loans and Receivables

Loans and receivables are initially recognised at the fair value of the consideration paid including transaction costs that are directly attributable to the acquisition or issue of the financial asset Subsequently they are measured at amortised cost using the effective interest rate method

Tangible assets and depreciation

Tangible assets are capitalised and depreciated to their recoverable value over their useful economic lives on the following basis

Computer Hardware and Software	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

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets not at fair value through profit and loss is impaired A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events

1 significant financial difficulty of the issuer or debtor,
2 a breach of contract, such as a default of delinquency in payments,
3 it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation,
4 the disappearance of an active market for that financial asset because of financial difficulties, or
5 observable data indicated that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including
   a adverse changes in the payment status of issuers or debtors in the group, or
   b national or local economic conditions that correlate with defaults on the assets in the group

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate The carrying amount of the asset is reduced and the amount of the loss is recognised in the Profit and Loss Account for the period If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i e on the basis of the Group's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors) Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed through the Profit and Loss Account for the period

Long term business provision

The long-term business provision is determined on the basis of recognised actuarial methods and consistently with the FSA Rules (specifically those applying to the calculation of mathematical reserves contained in Chapter 1 2 of the Insurance Prudential Sourcebook) and the Association of British Insurers Statement of Recommended Practice on Accounting for Insurance Business (December 2005 revised December 2006) In determining the long-term business provision all relevant guidance from the Board of Actuarial Standards, and in particular Guidance Notes 7 and 44, has been followed

Full details of the methods, assumptions and sensitivities are given in note 18

The long-term provision includes the non-unit liabilities in respect of unit-linked insurance contracts

Technical provisions for linked liabilities

Liabilities under unit-linked contracts are recognised as and when the units are created and are dependent on the value of the underlying financial assets, derivatives and/or investment property

Unit-linked contracts which transfer significant insurance risk, including guaranteed benefits, are classified as insurance contracts and are carried in the balance sheet at an amount determined by the valuation of the related units on the valuation date

Unit-linked contracts which principally involve the transfer of financial risk are classified as investment contracts and are carried in the balance sheet at amortised cost The amortised cost of these financial liabilities is equivalent to the amount payable on demand without penalty

Deferred acquisition costs

Deferred acquisition costs for insurance contracts 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 The rate of amortisation is consistent with the pattern of emergence of such margins

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 unappropriated surplus or deficit arising on the technical account is transferred to or from the fund on an annual basis

Taxation

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

Deferred taxation

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the Profit and Loss Account Deferred tax is calculated at the rates at which it is expected that the tax will arise and discounted to take into account the likely timing of payments and the pattern of the expected realisation of investments Deferred tax balances are similarly discounted The discount rates used are the post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with similar maturity dates 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

A deferred tax asset is not recognised where there is no certainty of sufficient future profits and gains arising against which losses giving rise to the deferred tax assets can be offset

Operating leases

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

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

Pension Costs

The Society operates a defined benefit pension scheme which closed to future accrual for all but 2 members, on 30 June 2010 The defined benefit pension scheme is reported using the provisions of FRS 17 Included on the balance sheet is the aggregate pension scheme's assets less the present value of the scheme's liabilities, net of a provision for deferred tax

The pension cost for the scheme is analysed between current service cost, past service cost and net return on pension scheme Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, are recognised in the Profit and Loss Account on a straight-line basis over the period in which the increase in benefits vest

Net expected return on the pension asset comprises the expected return on the pension scheme assets less interest on scheme liabilities

The standard requires certain items to be accounted for through the "Statement of Total Recognised Gains and Losses" which, neither the Group nor Society prepare due to their mutual status Instead, these items are shown separately in the Profit and Loss Account

Since 1 July 2010 the Society has operated a defined contribution scheme Payments into this scheme are accounted for when due The assets of the scheme are held separately from the Group and Society in independently administered funds

Goodwill

Goodwill, both positive and negative, arising on consolidation is capitalised in the balance sheet at cost and amortised through the Profit and Loss Account over 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 over their expected future life, which the directors have determined to be 20 years on average

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"

Provisions

A provision is recognised in the balance sheet when there is a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation

1b. Uncertainties

As mentioned in the Report of the Directors on page 7 further work was undertaken throughout 2010 in relation to the FSA's request at the end of 2009 for all mutual insurers and friendly societies to review the fair treatment of policyholders in with profits funds During 2010 the Board have been reviewing past actions and future strategies to establish that the Society has been, and continues to be, fair to members

Discussions are continuing with the FSA in respect of the review of actions taken since 2000 The Board remains confident that all actions since this date have been fair to all members and have actually enhanced payments and consider that the likelihood of the FSA arriving at a different conclusion is low In the unlikely event that the FSA's conclusion did differ from that of the Board, it is possible that additional payments would be due to with profit policyholders This is also considered to be of low probability It is not possible to quantify the level of any additional payments that may be required at the date of signing these financial statements

The Board is also looking to ensure clarity in the way in which the Society distributes bonuses and operates in the future and further communication on this matter will be sent to policyholders during 2011

2. Management of financial risk

Outline of Fund Structure

As the Society is a mutual company the financial risks are borne by the Society's members, and in particular with profits policyholders

The Society comprises six with profits funds These are known as RM With Profits Sub Fund (RM WPSF), With Profits Sub Fund 2 (WPSF2), WPSF3, WPSF4, WPSF5 and WPSF6

WPSF2 to WPSF6 were created following various schemes of transfer of business into the Society

Unit linked business is primarily held in RM WPSF with a small element in WPSF5 For unit linked contracts the Group matches all the liabilities with assets in the portfolio on which the unit prices are based There is therefore no direct exposure to market or credit risk for the with profits policyholders on these contracts This is considered further below

The financial risks discussed below therefore only represent the risk to with profits policyholders in the Group, which would result in a risk to the fund for future appropriations (FFA)

Financial Risk

The Group is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts (together referred to as "liabilities to policyholders") as they fall due The most important components of this financial risk are market risk, credit risk and liquidity risk In addition, further risks arise from the difference between estimated and actual cost of future insurance and investment contract liabilities, which are covered in more detail in note 18

These financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements The main risks that the Group faces due to the nature of its financial assets and liabilities, are interest rate risk and equity price risk (as components of market risk) and credit risk

The Group's overall risk management policy seeks to manage the effects of financial risks Investment guidelines have been established by the Investment Committee to control exposure to both market and credit risk

The role of the Investment Committee is to monitor the Group's investment management function This encompasses

1) Monitoring the methodology and rationale behind all deals that are executed and asset allocation decisions that are taken
2) Monitoring credit exposure and counterparty risk
3) Reviewing all aspects of the Group's fund management procedures, e g dealing authorities, allocation policy, investment guidelines and authorised brokers
4) Being aware of the liabilities against which the assets are held and taking account of their nature and term when considering investment decisions
5) Monitoring the fund managers' measure to satisfy the FSA's Training and Competence requirements in respect of investment management staff
6) Ensuring at all times that the Investment Department has sufficient resources to discharge its responsibilities to both policyholders and unit holders and to comply with any regulations that govern the Investment Department's activities
7) General input on compliance, stock selection and asset allocation

All Investment Committee minutes are presented to the Board

A principal technique used by the Investment Committee is to ensure that assets are matched to the liabilities arising from insurance contracts by reference to the type of benefits payable to policyholders Within RM WPSF, separate portfolios of assets are maintained for non-profit annuities, each unit-linked fund, guaranteed income bonds and other contracts Each of the sub funds WPSF2 to WPSF6 has its own separately identified assets which are managed to match the obligations of the insurance and investment contracts in those sub funds

As part of the acquisition of the business of Hearts of Oak Insurance Company Limited in 2007, the Group started to use interest rate swaptions to hedge interest rate and equity market risks associated with guaranteed annuity rate options on certain policies that were acquired with the transfer of that business The Group does not use hedge accounting

The suitability of this derivative is reviewed at least annually by the Investment Committee The maximum potential financial exposure is reduced by the holding of a collateral account which is rebalanced daily subject to a transfer threshold Details of the collateral account and value of the options are received by the Investment Manager, Chief Actuary and Financial Controller daily

The Group has not changed its processes for managing risks from previous periods

a) Market Risk

Market risk arises from the possibility that the value or cash flows of the Group's assets and liabilities fluctuate as a result of the movements in market prices The most important components of market risk are interest rate, currency, equity price and property price risk

These are discussed in more detail below

i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities In addition to the extent that claims costs are related to interest rates, liabilities to policyholders are exposed to interest rate risk Likewise, insurance and non-profit investment contracts have benefit payments that are fixed and guaranteed at the inception of the contract

Fixed interest securities are held which to a significant extent match the expected liability cashflow on non-profit annuities, which are the major portion of non-profit business, and as such the interest rate risk arising from non-profit business is relatively small The matching of these assets to liabilities is reviewed half yearly by the investment committee considering the cashflow profile of liabilities and assets

With profits business has a much broader matching of assets to liabilities than that adopted for non profit annuities The investment committee reviews the investments held annually and decides on changes that should be made to the portfolio There is therefore some exposure to interest rate risk on this business although as the policies contain discretionary benefits, management actions, through bonus declaration mechanisms, could be taken to mitigate the risk

Interest rate risk in relation to guaranteed annuity reserves differs depending on the sub fund involved The largest liabilities relate to business in RM WPSF and WPSF6 which is protected to a certain level by a portfolio of interest rate swaptions This level of protection is not perfect and some residual risk on guaranteed annuity reserves remains

Guaranteed annuity reserves in other with profits funds have no specific protection other than the level of prudence in the long term business provision If this did not suffice, management actions, through bonus declarations, would be taken to protect the fund concerned

An increase of 20% in interest rates would decrease the value of the long term business provision by £69 4m (2009 £60 0m), financial investments would also decrease in value by £70 2m (2009 £67 1m) resulting in a decrease in the FFA of £0 7m (2009 decrease of £7 1m)

A decrease of 20% in interest rates would increase the value of the long term business provision by £85 9m (2009 £73 2m), financial investments would also increase in value by £88 7m (2009 £87 9m) resulting in an increase in the FFA of £2 8m (2009 increase of £14 7m) *ii) Currency risk*

The Group operates mainly in the UK, although there is a small level of liability exposure to Continental Europe through credit life business

Where liabilities are in a currency other than sterling, the Group's policy is to ensure assets are held to cover the liability in this foreign currency

Foreign currency risk is largely in relation to movements on individual instruments within the investment portfolio that are denominated or payable in currencies other than sterling Investment guidelines only allow non sterling investments to be held in two specific with profits funds and limit the amount that may be held

The impact of a 5% weakening/strengthening of the pound against the Euro or US dollar would not be material at 31 December 2010 or 2009

iii) Equity Price

The Group's non-linked exposure to equities primarily relates to holdings in the with profits sub funds In addition the with profits policyholders benefit from the excess of charges levied less expenses incurred in the unit linked business As the charges are primarily expressed as a percentage of the value of the funds under management, changes in equity values influence this source of surplus

Exposures to individual companies are monitored in order to ensure compliance with relevant regulatory limits for solvency purposes Investments held are listed and traded on the UK and other recognised stock exchanges (primarily in Europe, North America and the Pacific Basin) The Group has a defined investment policy which sets out limits on the Group's concentration of exposure to equities in any one counterparty Counterparty exposures are monitored half yearly by the Investment Committee

The impact of equity price falls in the with profits funds would be to reduce the value of with profits policies via asset shares The PPFM provides the mechanism for automatic management actions to adjust bonus rates (see page 17)

An increase of 10% in equity prices would decrease the value of the long term business provision by £0 1m (2009 increase of £0 1m), financial investments would also increase in value by £4 1m (2009 £4 6m) resulting in an increase in the FFA of £4 2m (2009 £4 5m)

A decrease of 10% would increase the value of the long term business provision by £0 2m (2009 decrease of £0 0m) and decrease the values of financial assets by £4 1m (2009 £4 6m) resulting in a decrease in the FFA of £4 3m (2009 £4 6m)

iv) Property Price risk

The Group is exposed to investment property value fluctuations in RM WPSF and WPSF6 The aim of the Group is not to directly hold property, except owner occupied property, as part of its investment portfolio and these holdings will be sold as and when a suitable opportunity arises

b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due The key area where the Group is exposed is in relation to its investment portfolio and from its holdings in bonds and cash in particular Other areas of risk are reinsurance balances due, rent receivable and amounts due from policyholders

The investment guidelines for non-linked assets stipulate counterparty limits for equities, unit trusts or recognised schemes and any one corporate counterparty The maximum amount to be held in any particular corporate bond issue is also specified The exposure to counterparties is reported to the Investment Committee every six months

Un-rated debt securities are considered on an individual basis by the investment committee Relevant financial information is reviewed annually by the investment committee on a rolling program

The main material reinsurance contracts relate to smoker annuities where the longevity risk is 75% reinsured The reinsurance operates on a reverse risk premium basis where the Society pays expected annuity payments and the reinsurers pay actual annuity payments Therefore the loss arising from the reinsurer defaulting is limited to the net balances due This risk has been reduced by splitting the reinsurance of smoker annuities between two providers from 1 January 2008 There is also a contract that reinsures the liability for other annuities in payment In this case the reinsurer deposits an amount of collateral with the Society that limits the credit risk

The assets bearing credit risk are summarised below, together with an analysis by credit rating

	2010 £000	2009 £000
Non-linked assets subject to credit risk		
Sovereign Debt	232,856	224,576
AAA	28,394	29,266
AA	138,656	160,010
A	285,423	231,762
BBB and below or not rated	183,126	166,603
Total assets bearing credit risk	868,455	812,217
Derivatives financial instruments	9,133	8,942
Debt securities	789,252	729,093
Loans & Receivables	5,378	1,961
Assets arising from reinsurance contracts held	31,605	29,855
Deposits with credit institutions	33,087	42,366
Total assets bearing credit risk	868,455	812,217

For the purpose of demonstrating the Society's exposure to credit risk, reinsurance has been included with those non-linked assets with a credit rating AA or A This was considered appropriate in light of the reinsurer's credit rating

Sovereign debt relates to UK and overseas government issued debt or debt issued by supranational authorities such as the European Investment Bank

No financial assets are past due or impaired at the reporting date

The Society increased the credit default margins in the valuation basis used to determine policyholder liabilities as at 31 December 2010 (see note 18) The impact can be seen in the movement in capital resources in note 21 (c)

A further increase of 33% in credit default margins would increase liabilities and decrease the FFA by £17 6m

A decrease of 33% in credit default margins would decrease liabilities and increase the FFA by £16 8m

To restrict the loss that would be incurred by the failure of another party to fulfil its obligations under the derivative contract, a collateral account is held The account is maintained at £10m below the value of the options with a transfer threshold of £0 5m The account is assessed on close of day values and rebalanced the next day subject to the threshold limit

As there is no significant difference between the credit risk profile of the Society and the Group no separate table has been prepared for the Society only position

c) ***Liquidity risk***

Liquidity risk is the risk that cash may not be available at a reasonable cost to pay obligations when due This is managed by weekly cash forecasts and also by holding sufficient cash and other assets in investments which are readily marketable in a sufficiently short timeframe to be able to settle benefits as they fall due

Apart from a small number of investment contracts with financial liabilities of less than £0 9m (2009 £1 0m), all policies include the right to surrender or transfer the policy on demand, with the surrender or transfer value calculation method being determined by the policy conditions The majority of the contracts are unit linked, where the liabilities are matched by assets held in internal linked funds All linked assets are readily marketable except for direct properties held in the property funds In the property funds, the Society has the right to defer payment of surrender or transfer values by up to six months This right was not exercised at any time in the current or prior year

The investment contracts that are not unit linked have a maximum outstanding duration of five years and are backed by fixed term deposits or short dated fixed interest securities matching the outstanding duration The Society is exposed to requests for early surrender of such polices when the backing assets are illiquid The maximum exposure, were all contracts to surrender at the balance sheet date is £10 3m (2009 £11 0m)

The table below provides a maturity analysis of the Group's financial liabilities These are on an undiscounted cashflow basis and therefore do not equal the liabilities shown in the balance sheet

	On demand	Others up to 1 year	Between 1 and 5 years	>5 years	Total
	£000	£000	£000	£000	£000
At 31 December 2010					
Financial liabilities under non-profit investment contracts	485,613	301	-	-	485,914
Creditors	500	5,563	3,764	10,634	20,461
Financial liabilities at amortised cost	486,113	5,864	3,764	10,634	506,375
Financial liabilities under with profits investment contracts included in long term business provision	10,079	-	-	-	10,079
	495,192	5,864	3,764	10,634	516,454

Financial liabilities under with profits investment contracts are accounted for as insurance contracts in line with the ABI SORP

	On demand	Others up to 1 year	Between 1 and 5 years	>5 years	Total
	£000	£000	£000	£000	£000
At 31 December 2009					
Financial liabilities under non-profit investment contracts	433,256	475	-	-	433,731
Creditors	832	4,265	3,897	11,400	20,394
Financial liabilities at amortised cost	434,088	4,740	3,897	11,400	454,125
Financial liabilities under with profits investment contracts included in long term business provision	10,157	-	-	-	10,157
	444,245	4,740	3,897	11,400	464,282

As there is no significant difference between the maturity profile of the Society and the Group no separate table has been prepared for the Society only position

d) ***Fair value estimation***

FRS 29 requires, for financial instruments held at fair value in the balance sheet, disclosure of fair value measurements by level of the following fair value measurement hierarchy

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3)

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2010

	Level 1	Level 2	Level 3	Total Balance
	£m	£m	£m	£m
Assets				
Financial assets at fair value through profit or loss				
- shares and other variable-yield securities and units in unit trusts	54 7	15 2	-	69 9
- debt securities and other fixed income securities	228 2	561 1	-	789 3
- derivative financial investments	-	-	9 1	9 1
	282 9	576 3	9 1	868 3
Financial assets held to cover linked liabilities	426 4	284 2	-	710 6
	709 3	860 5	9 1	1,578 9

In addition to the £710 6m of financial assets held to cover linked liabilities a further £34 3m of non financial assets and liabilities are also held to cover linked liabilities These assets and liabilities do not fall within the scope of FRS29 and are therefore not included in the hierarchy

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date, as described in note 1 These instruments are included in Level 1 Instruments included in Level 1 comprise primarily listed equity and debt instruments

The Group closely monitors the valuation of assets in markets that have become less liquid Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured Where it is determined that there is no active market, fair value is established using a valuation technique The techniques applied incorporate relevant information available and reflect appropriate adjustments for credit and liquidity risks These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates The relative weightings given to differing sources of information and the determination of non-observable inputs to valuation models can require the exercise of significant judgement

If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2 If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3

Specific valuation techniques used to value financial instruments include

- The use of observable prices for recent arm's length transactions

- Quoted market prices or dealer quotes for similar instruments In particular, for corporate bonds for which there is no active market the fair value is based on broker/dealer price quotations Where this information is not available or where it is considered to be not representative of fair value, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics

The following table presents the changes in Level 3 instruments for the year ended 31 December 2010

	Derivatives £m
Opening balance	8 9
Gains and losses recognised in the profit or loss	0 2
Closing balance	9 1
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	0 1

3 Segmental analysis

In the opinion of the directors, the Group operates in a single business segment, being that of long term insurance business

a) Gross Premiums Written

All premiums relate solely to long-term insurance contracts

	2010 £000	2009 £000
Gross premiums written comprise		
Direct insurance	52,239	56,992
Gross direct premiums written in respect of insurance contracts and with profits investment contracts		
Periodic premiums	8,029	9,175
Single premiums	44,210	47,817
	52,239	56,992
Life insurance contracts	7,750	8,714
Pensions	44,403	48,181
Sickness and disability contracts	86	97
	52,239	56,992
Unit linked insurance contracts	6,034	6,891
Non linked contracts	46,205	50,101
	52,239	56,992
Geographical analysis		
United Kingdom	52,227	56,939
Germany	(7)	32
Finland	18	21
Italy	1	-
	52,239	56,992

Gross premiums written arising from group contracts are immaterial, therefore all premiums are deemed to arise from individual business

In addition to the premiums disclosed above in relation to insurance contracts and investment contracts with dpf, the following premiums were received in relation to investment contracts These are accounted for using deposit accounting as additions to investment contract liabilities in the balance sheet (see note 20) rather than as premiums in the long term technical account

	2010 £000	2009 £000
Unit linked investment contracts		
Life	132	154
Pensions	10,093	11,174
	10,225	11,328

There were no premiums on non linked investment contracts

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 insurance contracts and investment with dpf contracts comprise

	2010 £000	2009 £000
Periodic premiums	89	82
Single premiums	44,211	47,817
	44,300	47,899
Life insurance contracts	488	444
Pension contracts	43,811	47,455
	44,300	47,899
Unit linked insurance contracts	46	72
Non linked contracts	44,254	47,827
	44,300	47,899
Geographical analysis		
United Kingdom	44,307	47,889
Germany	(8)	10
Italy	1	-
	44,300	47,899

In classifying new business premiums the following bases of recognition have been adopted

- Recurrent single premium contracts, including DWP rebates on certain pension products are included as new business, single premiums,
- Pensions vested into annuity contracts during the year are included as new annuity single premium business at the annuity purchase price,
- Where regular premiums are received other than annually, the reported regular new business premiums are on an annualised basis,
- Negative premiums represent refunds

New business in relation to investment contracts comprise

	2010 £000	2009 £000
Unit linked investment contracts		
Pensions – single premiums	6,120	6,763

Reinsurance Balance

The reinsurance balance amounted to a credit to the long term business technical account at 31 December 2010 of £2 490m (2009 credit of £3 371m)

4 Investment Return

	2010 £000	2009 £000
Investment income:		
Income from other financial investments		
- Loans and receivables interest income	131	138
Total interest income on financial assets not at fair value through profit or loss	131	138
Income from financial assets at fair value through profit or loss	65,865	63,802
	65,996	63,940
Income from land and buildings	515	1,208
Net return on pension scheme (note 27)	416	(14)
Net gains on the realisation of investments	13,149	657
	80,076	65,791
Investment expenses and charges:		
Investment management expenses	(1,477)	(1,204)
Total investment management expenses	(1,477)	(1,204)
Net unrealised gains on investments	119,185	145,021
Total investment return	197,784	209,608
Included in the total investment return are net gains or losses on financial assets at fair value through profit or loss		
- Assets designated upon initial recognition	131,916	157,440
- Assets held for trading	418	(11,762)
Total net realised and unrealised gains included in investment return	132,334	145,678
Interest expense for financial liabilities not at fair value through profit and loss comprises		
- Interest expense in respect of unit linked investment contracts	66,609	77,337
Interest in respect of financial liabilities at amortised cost	66,609	77,337
- Interest expense in respect of with profits investment contracts	615	(165)
Total interest expense for financial liabilities not at fair value through profit and loss	67,224	77,172

Interest expense relating to financial liabilities at amortised cost in respect of unit linked investment contracts is included in the Technical account – long-term business under the heading "change in other technical provisions" See note 20

The interest expense in respect of with profits contracts is calculated as the increase in the liability for those contracts not attributable to amounts received from, or paid to, policyholders and is included in the Technical account – long-term business under the heading "Change in other technical provisions"

5. Other Technical Income and Charges

Other technical income includes fees for policy administration and asset management services arising from non-participating investment contracts and relates to financial liabilities carried at amortised cost

Also included in other technical income and charges are the profits or losses after taxation of The Reliance Fire & Accident Insurance Corporation Limited, Reliance Administration Services Limited, FS Management Limited and Reliance Unit Managers Limited, which do not carry on long-term business

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

	2010 £000	2009 £000
a) Other technical income		
Fee income from investment contracts	3,248	3,152
Reliance Unit Managers Limited	322	264
Reliance Administration Services Limited	83	96
FS Management Limited	-	8
	3,653	3,520
b) Other technical charges		
The Reliance Fire & Accident Insurance Corporation Limited	7	52
FS Management Limited	1	-
Amortisation of present value of acquired in-force business	353	382
	361	434

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

6. Bonuses

The aggregate of the bonuses added to policies in the year was £8 047m (2009 £7 896m)

7 Net Operating Expenses

	2010 £000	2009 £000
Acquisition costs	2,311	2,913
Change in deferred acquisition costs	90	57
Administrative expenses	6,068	3,886
Reinsurance commissions	97	(99)
	8,566	6,757

Total commission for direct insurance accounted for by the Group during the year amounted to £1 494m (2009 £2 298m)

	2010 £000	2009 £000
Included within the administration expenses are		
Audit services:		
Fees payable to PricewaterhouseCoopers LLP for audit of the parent company's consolidated annual accounts	299	293
(Over)/Under provision for previous year	(2)	88
Non-audit services:		
Fees payable to PricewaterhouseCoopers LLP and its associates for other services		
The audit of the company's subsidiaries, pursuant to legislation	41	50
Other services pursuant to legislation, including the audit of the regulatory return	57	57
	395	488
Fees payable to PricewaterhouseCoopers LLP in respect of Reliance Pension Scheme		
Audit	8	7
Depreciation of tangible assets	528	513
Operating lease rentals – land and buildings	176	185

In 2010 and 2009 the Society settled the audit fees for the whole Group, an allocation was then made to subsidiary companies

8. Investment Expenses and Charges

	2010 £000	2009 £000
Investment Expenses	1,477	1,204

9 Employee Information

The average number of persons (including the executive director) employed by the Group during the year was

	2010 No	2009 No
Management	7	7
Administration	71	81
	78	88

Staff costs for the above totalled	2010 £000	2009 £000
Wages and Salaries	3,186	3,136
Social Security costs	363	317
Other Pension costs		
- Defined Benefit (note 27)	2,060	823
- Defined Contribution	108	-
	5,717	4,276

10 Directors' Emoluments

	2010 £000	2009 £000
Total directors' emoluments	498	452
Highest paid director (included in above figures)	296	260

In the first half of 2010 and all of 2009 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 £11,819 (2009 £10,182) From 1 July 2010, the highest paid director joined the Society's new defined contribution scheme The Group and Society's contributions during the period were £10,132 See the Remuneration Report on page 16 for more detail on directors' emoluments

11 Taxation

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

	2010 £000	2009 £000
UK Corporation Tax at 20% (2009 – 20%)	(795)	1,211
Adjustments in respect of prior periods	(112)	(508)
Total current tax	(907)	703
Deferred taxation		
within technical provision for linked liabilities	12	11,143
FRS17 deferred tax	(74)	(96)
other deferred taxation origination and reversal of timing differences (see note 24)	781	1,140
movement in discount	(77)	(174)
Total deferred tax	642	12,013
Tax (credit)/charge on profit on ordinary activities	(265)	12,716

UK corporation tax in the technical account has been calculated at rates at 20% (2009 20%) in accordance with the rates applicable to the long-term business

12 Fund for Future Appropriations

	2010		2009	
	Group £000	Society £000	Group £000	Society £000
At 1 January	91,281	91,368	81,100	81,216
Transfer from profit and loss account	13,615	13,586	10,181	10,152
At 31 December	104,896	104,954	91,281	91,368

13 Land and Buildings – Group and Society

	2010 £000	2009 £000
Freehold	3,827	7,277
Long leasehold	-	1,260
	3,827	8,537

The cost of land and buildings was £5 174m (2009 £12 131m)

Land and buildings have detailed valuations carried out on a rolling program throughout the year However all valuations were reviewed as at 31 December 2010

The properties were valued at open market value by chartered surveyors Aitchison Raffety Valuations were prepared in accordance with RICS guidelines

14. 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 & Accident Insurance Corporation Limited where the Society held 99 99% of the issued share capital

	2010 Current Value £000	2010 Cost £000	2009 Current Value £000	2009 Cost £000
The Reliance Fire & Accident Insurance Corporation Limited	357	1,000	364	1,000
Reliance Unit Managers Limited	422	50	364	50
Reliance Pension Scheme Trustee Limited	-	-	-	-
Reliance Administration Services Limited	233	100	246	100
FS Management Limited	85	50	86	50
	1,097	1,200	1,060	1,200

Group undertakings have been included at net asset value, which is current value, in the Society's balance sheet

Details of group undertakings are

	Incorporated	Principal Activity
The Reliance Fire & Accident Insurance Corporation Limited	England & Wales	General insurance
Reliance Unit Managers Limited	England & Wales	Unit Trust management
Reliance Pension Scheme Trustee Limited	England & Wales	Trustee
Reliance Administration Services Limited	England & Wales	Administration
FS Management Limited	England & Wales	Administration

15 Other Financial Investments

a) <u>Group Balance Sheet</u>

	2010 Market Value £000	2010 Cost £000	2009 Market Value £000	2009 Cost £000
Financial assets at fair value through profit or loss				
Designated upon initial recognition	859,147	832,757	802,075	802,727
Derivative financial instruments – held for trading	9,133	6,441	8,942	6,535
	868,280	839,198	811,017	809,262
Loans and receivables at amortised cost	38,465	38,444	44,327	44,379
Total financial assets	906,745	877,642	855,344	853,641

Included in balance sheet as follows

	2010 Market Value £000	2010 Cost £000	2009 Market Value £000	2009 Cost £000
Shares and other variable yield securities and units in unit trusts	69,894	59,803	72,982	62,928
Debt securities and other fixed income securities	789,253	772,955	729,093	739,799
Derivative financial instruments	9,133	6,441	8,942	6,535
Loans secured by mortgages	298	298	318	318
Other loans	5,080	5,080	1,643	1,643
Deposits with credit institutions	33,087	33,065	42,366	42,418
	906,745	877,642	855,344	853,641

b) Society Balance Sheet

	2010 Market Value £000	2010 Cost £000	2009 Market Value £000	2009 Cost £000
Financial assets at fair value through profit or loss				
Designated upon initial recognition	858,662	832,292	801,585	802,262
Derivative financial instruments – held for trading	9,133	6,441	8,942	6,535
	867,795	838,733	810,527	808,797
Loans and receivables at amortised cost	38,435	38,413	44,296	44,348
Total financial assets	906,230	877,146	854,823	853,145

Included in balance sheet as follows

	2010 Market Value £000	2010 Cost £000	2009 Market Value £000	2009 Cost £000
Shares and other variable yield securities and units in unit trusts	69,845	59,755	72,934	62,880
Debt securities and other fixed income securities	788,817	772,537	728,651	739,382
Derivative financial instrument	9,133	6,441	8,942	6,535
Loans secured by mortgages	298	298	318	318
Other loans	5,080	5,080	1,643	1,643
Deposits with credit institutions	33,057	33,035	42,335	42,387
	906,230	877,146	854,823	853,145

c) Listed Investments

	2010 Group £000	2010 Society £000	2009 Group £000	2009 Society £000
Shares and other variable yield securities and units in unit trusts	69,894	69,845	45,841	45,793
Debt securities and other fixed income securities	789,253	788,817	756,234	755 792
	859,147	858,662	802,075	801,585

d) Financial assets at amortised cost

For loans and receivables at amortised cost, the carrying value is a reasonable approximation of fair value

At the reporting date, there were no assets held at amortised cost that were either impaired or overdue

e) Other loans

Included within other loans are loans secured on policies with a cost and carrying value of £1 6m (2009 £1 6m)

f) Derivative financial instruments, at fair value through profit or loss, held for trading

Included within the Group and Society's financial investments are series of sterling receiver swap options and equity hybrid receiver swap options with a fair value of £9 1m (2009 £8 9m) that cost £6 4m (2009 £6 5m)

The contracts are not listed on a recognised exchange, but are valued at the amount at which the independent counterparty would be prepared to close out the options

Each series is exercisable on a single fixed date up until 2040 The effect of exercising sterling options at the exercise date would be to convert a fixed nominal amount of cash into a fixed interest asset In the case of the equity hybrid receiver swap options, the amount of cash convertible into a fixed interest asset varies proportionately with the FTSE 100 Total Return Index subject to certain minima and maxima at the date of exercise The cash which would be used to fund the swaps is the expected future coupon and redemption receipts from part of the fixed interest portfolio

Movements in fair value arise due to actual and perceived future movements in interest rates and the FTSE 100 Total Return Index and are reflected in the long term business technical account Fair value gains in the year amounted to £0 4m (2009 losses of £11 8m)

16 Goodwill and Present Value of Acquired in force Business

Group

	2010 Goodwill	2010 Present Value of Acquired Business	2009 Goodwill	2009 Present Value of Acquired Business
	£000	£000	£000	£000
Cost				
At 1 January	(585)	5,370	(585)	5,370
At 31 December	(585)	5,370	(585)	5,370
Amortisation				
At 1 January	234	(2,388)	195	(1,996)
Amortisation during year	39	(363)	39	(392)
At 31 December	273	(2,751)	234	(2,388)
Net book value at 31 December	(312)	2,619	(351)	2,982
Net book value at 1 January	(351)	2,982	(390)	3,374

Negative goodwill arising on the acquisition of Criterion Life Assurance Limited is being amortised on a straight-line basis over fifteen years (2004 to 2018)

The present value of acquired in force business relates to the transfer of business from Family Assurance Friendly Society in 2004 and the acquisition of SEB Trygg Life (UK) Assurance Company Limited in 2006 The value is being amortised on a systematic basis, subject to an annual impairment test

No present value of acquired business was recognised on the acquisition of University Life Assurance Society as doing so would have generated negative goodwill, which is not permitted by UK accounting standards

Society

	2010 Goodwill	2010 Present value of Acquired Business	2009 Goodwill	2009 Present Value of Acquired Business
	£000	£000	£000	£000
Cost				
At 1 January	-	4,920	-	4,920
At 31 December	-	4,920	-	4,920
Amortisation				
At 1 January	-	(2,202)	-	(1,820)
Amortisation during year	-	(353)	-	(382)
At 31 December	-	(2,555)	-	(2,202)
Net book value at 31 December	-	2,365	-	2,718
Net book value at 1 January	-	2,718	-	3,100

The Society includes the present value of acquired in force business relating to the transfer from Family Assurance Friendly Society in 2004 The value is being amortised on a systematic basis, subject to an annual impairment test

17 Assets held to cover linked liabilities

Group and Society Balance Sheet

	2010 Market Value	2010 Cost	2009 Market Value	2009 Cost
	£000	£000	£000	£000
Assets held to cover linked liabilities	744,861	567,478	672,878	585,601

18 Long Term Business Provision

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

	2010 Group and Society £000	2009 Group and Society £000
Gross amount		
Mathematical reserves, before bonus	841,064	804,317
Cost of bonus added at year end	842	972
Zillmer adjustment	26	34
FRS26 adjustment – sterling reserves	(8,722)	(7,797)
Long term business provision	833,210	797,526
Reinsurance		
Mathematical reserves, before bonus	31,267	29,855
Long term business provision	31,267	29,855
Net amounts		
Mathematical reserves, before bonus	809,797	774,462
Cost of bonus added at year end	842	972
Zillmer adjustment	26	34
FRS26 adjustment – sterling reserves	(8,722)	(7,797)
Long term business provision	801,943	767,671

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

Valuation Method

Investment contracts are valued at amortised cost

For insurance contracts 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

The valuation method includes an explicit allowance for existing vested annual bonuses It allows for future annual bonuses on with profits business implicitly, by a reduction in the valuation rate of interest No allowance is made for final bonuses, these bonuses are 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), and for deferred annuities in WPSF4 and WPSF6 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

Interest Rates

Product group	Interest Rate 2010	Interest Rate 2009
Reliance Mutual With Profits Sub Fund		
With profits life assurances	1 92%	2 25%
Guaranteed income and growth bonds	3 24%	3 18%
Other without profits life assurances	2 67%	3 00%
Life fund annuities in payment	3 49%	3 87%
Pension deferred annuities and assurances	3 34%	3 75%
Pension annuities in payment	4 37%	4 83%
With Profits Sub Fund 4		
Deferred annuities - series 1 regular premium and series 2	2 77%	2 80%
Deferred annuities - series 1 single premium	2 39%	2 75%
Annuities in payment and deferred annuities after vesting	3 78%	3 55%
With Profits Sub Fund 5		
Life annuities in payment	3 11%	2 57%
Pension annuities in payment	3 89%	3 21%
With Profits Sub Fund 6		
Deferred annuities – with profits group 3	4 11%	4 64%
Deferred annuities – other with profits	3 21%	3 50%
Annuities in payment	4 29%	4 45%

Mortality tables

Product group	Mortality table 2010	Mortality table 2009
All ordinary branch assurances in all sub funds	A00	A00
All industrial branch assurances	ELT16	ELT16
Smoker annuities in payment (see note)	150% PA92	150% PA92
Non-smoker annuities in payment (see note)	67 5% PA92	67 5% PA92
Aggregate annuities in payment (RM WPSF)	115% PCA 92	115% PCA 92
Aggregate annuities in payment, and deferred annuities post-vesting (WPSF4) (see note)	Male 104 5% PMA92 Female 95% PFA92	Male 104 5% PMA92 Female 95% PFA92
Aggregate annuities in payment (WPSF5)	80% PCA 92	80% PCA 92
Aggregate annuities in payment (WPSF6)	115% PCA 92	115% PCA 92
Deferred annuities pre-vesting (WPSF4)	80% A00	80% A00
Deferred annuities pre-vesting (WPSF6)	80% A00	80% A00

All mortality tables use the gender specific tables for males and females For example A92 refers to AM92 for males and AF92 for females In the table below "MC" refers to medium cohort projection published in the CMI Mortality sub committee working paper No 1

"PCA92" refers to the rates from the graduation of amounts data for pensions combined published in the CMIR 19 report of the Institute and Faculty of Actuaries, projected using the medium cohort as above

Notes

Smoker annuities in payment 150% of the mortality table was used for ages up to 70 The percentage then reduced linearly to 125% at age 85 and 100% at age 120

Non-smoker annuities the mortality multiplier reduced to 77 5% at age 85 and 87 5% at age 120

Aggregate annuities in WPSF4 (males only) 104 5% of the table was used for ages up to 60 The percentage then reduced linearly to 83 1% at ages 85 and above

Mortality improvements

Product group	Mortality Improvements 2010		Mortality Improvements 2009	
	Male	Female	Male	Female
Smoker annuities in payment	75% MC	75% MC	75% MC	75% MC
minimum	1 3125%	1 0%	1 3125%	1 0%
Non-smoker annuities in payment	75% MC	75% MC	75% MC	75% MC
minimum	1 3125%	1 0%	1 3125%	1 0%
Aggregate annuities in payment (RM WPSF)	100% MC	75% MC	100% MC	75% MC
minimum	1 75%	1 3125%	1 75%	1 3125%
Aggregate annuities in payment, and deferred annuities post-vesting (WPSF4)	100% MC	75% MC	100% MC	75% MC
minimum	1 75%	1 3125%	1 75%	1 3125%
Aggregate annuities in payment (WPSF5)	100% MC	75% MC	100% MC	75% MC
minimum	1 75%	1 3125%	1 75%	1 3125%
Aggregate annuities in payment (WPSF6)	100% MC	75% MC	100% MC	75% MC
minimum	1 75%	1 3125%	1 75%	1 3125%

Annuitant mortality improvements set out above only apply to years after 2006 For earlier years, 100% of the published improvement table has been used

Margin for credit default risk

Bond Rating	2010* basis points	2009 basis points
Sovereign debt	Nil	Nil
AAA	48	30
AA	55	60
A	98	75
BBB	117	85
BB	356	270
B	n/a	340
CCC	748	450

*In 2010, the figures shown are the average deduction as margins were deducted on a bond by bond basis

Expenses

Product Group	Renewal Exps – premium paying £		Renewal Exps – paid up £		Claim Expenses £	
	2010	2009	2010	2009	2010	2009
Reliance Mutual With Profits Sub Fund						
OB life assurances except as specified below	32 00	28 70	11 20	10 05	95 00	96 00
Single premium unit linked investment bonds	-	-	24 00	21 53	95 00	96 00
Linked and non-linked guaranteed income bonds (annual rollovers)	-	-	32 00	28 70	9 50	9 60
Linked and non-linked guaranteed income bonds (3- and 5- yearly rollovers)	-	-	32 00	28 70	38 00	38 40
Linked and non-linked guaranteed growth bonds (annual rollovers)	-	-	16 00	14 35	9 50	9 60
Linked and non-linked guaranteed growth bonds (3- and 5- yearly rollovers)	-	-	16 00	14 35	38 00	38 40
All annuities in payment	-	-	28 50	25 60	-	-
All pension deferred annuities and assurances	32 00	28 70	11 20	10 05	261 25	264 00
All industrial branch business	16 00	14 35	0 32	0 29	14 25	14 40
With Profits Sub Fund 4						
Annuities in payment	-	-	37 47	36 86	-	-
Deferred annuities	37 47	36 86	13 11	12 90	464 62	456 92
Assurances	37 47	36 86	13 11	12 90	224 82	221 09
With Profits Sub Fund 5 – all policies, expressed as % SA	0 3%	0 3%	-	-	-	-
With Profits Sub Fund 6						
All life assurances	32 66	33 35	11 43	11 67	80 82	82 54
Annuities in payment	-	-	32 66	33 35	-	-
All pension deferred annuities	32 66	33 35	11 43	11 67	222 25	226 98

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 various contracts in RM WPSF, WPSF5 and WPSF6 where the policy proceeds at retirement (which are not guaranteed, either because they depend on future unit fund prices or because they include non guaranteed bonuses) are used to purchase an annuity at a guaranteed rate In most cases the guaranteed rate is beneficial for non smokers, and in some cases is also beneficial for smokers The contracts in WPSF6 and most of the contracts in RM WPSF are partly protected by a portfolio of investment derivative instruments designed to provide funds when the guarantees are onerous

The reserve for guaranteed annuity options is calculated using a generally recognised closed-form stochastic formula which is similar to the standard Black-Scholes formula adapted to value guaranteed annuity options An allowance is made for the take-up rate of the options as policyholders often choose to take part of their benefits as a tax free lump sum The take up rate is initially set to be a prudent assessment of current experience The take up rate is increased gradually for longer term options so that a take-up rate of 95% is assumed for retirement dates 20 years or more into the future

A check is made to determine whether a deterministic valuation at a cautious interest rate would produce a greater aggregate reserve The higher reserve is taken This is the case for options in WPSF5 and for some of the options in RM WPSF

Technical provisions include £25 7m (2009 £26 8m) in respect of the additional costs of the guarantees The technical provisions have been established with prudential margins for adverse deviation from the central assumptions To the extent that economic conditions move adversely, or policyholders elect to withdraw benefits at times when the guarantees are more valuable, the Society is exposed to risk This is because the protection provided by the asset portfolio that backs the technical provisions is not complete

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 £585,000 (2009 £745,000) 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, thus under all but the most extreme changes in market conditions contractual benefits to policyholders would be able to be paid

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 £72,000 (2009 £81,000) 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 Any change in interest rates that would cause these options to be financially significant would reduce the financial significance of the guaranteed annuity rate options described above by a greater amount

Sensitivities

The factors with the greatest influence on the long term business provision are the interest, credit default and expense assumptions and, for annuities in payment, the mortality assumption Further details can be found in note 2

A 20% increase in the valuation rates of interest would reduce the long term business provision by £69 4m

A reduction of 10% in the expense assumptions for all contracts would reduce the long term business provision by £6 4m

A change in the mortality improvement factors for annuities from the medium impact to the high impact projection combined with a reduction in the minimum improvement underpin, would increase the group long-term business provision by £13 6m

An increase of 33% in credit default margins would increase the long term business provision by £17 6m

19. Technical Provisions

	Long Term Business Provision – Insurance & Investment with dpf contracts £000	Long Term Business Provision – Investment contracts £000	Total Long Term Business Provision £000	Claims Outstanding £000
a Group Balance Sheet				
Gross technical provisions				
Balance at 1 January 2010	786,429	11,097	797,526	13,126
Payments made to policyholders of, and fees deducted from, investment contracts	-	(1,917)	(1,917)	-
Movement for the year	36,456	1,145	37,601	725
Balance at 31 December 2010	822,885	10,325	833,210	12,401
Reinsurers' Share				
Balance at 1 January 2010	29,855	-	29,855	385
Movement for the year	1,412	-	1,412	(261)
Balance at 31 December 2010	31,267	-	31,267	124
Net technical provisions				
Balance at 31 December 2010	791,618	10,325	801,943	12,277
Balance at 1 January 2010	756,574	11,097	767,671	12,741

Technical provisions for claims outstanding include amounts relating to The Reliance Fire & 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 – Insurance & Investment with dpf contracts	Long Term Business Provision – Investment contracts	Total Long Term Business Provision	Claims Outstanding
	£000	£000	£000	£000
b Society Balance Sheet				
Gross technical provisions				
Balance at 1 January 2010	786,429	11,097	797,526	12,653
Payments made to policyholders of, and fees deducted from, investment contracts	-	(1,917)	(1,917)	-
Movement for the year	36,456	1,145	37,601	386
Balance at 31 December 2010	822,885	10,325	833,210	12,267
Reinsurers' Share				
Balance at 1 January 2010	29,855	-	29,855	46
Movement for the year	1,412	-	1,412	71
Balance at 31 December 2009	31,267	-	31,267	117
Net technical provisions				
Balance at 31 December 2010	791,618	10,325	801,943	12,150
Balance at 1 January 2010	756,574	11,097	767,671	12,607

With profits investment contracts

Included within the long-term business provision are amounts of £10 1m (2009 £10 2m) relating to liabilities under with profits investment contracts, where there is no transfer of significant insurance risk These investment contracts contain a discretionary participatory feature which entitles the holder to receive, as a supplement to the guaranteed benefits, additional benefits or bonuses through participation in the surplus arising from the assets held in the relevant investment with profits fund These supplemental discretionary participatory returns are subject to the discretion of the Group The Group has the discretion within the constraints of the terms and conditions of the instruments and UK regulation, to allocate the surplus to the contract holders

Although these contracts are not required to be deposit accounted they should be carried at fair value

The Group cannot measure reliably the fair value of with profits investment contracts due to the lack of a reliable basis to measure the supplemental discretionary returns and because there is not an active market for such investments

20 Technical provisions for linked liabilities

Group and Society

	Unit linked investment contracts		Unit linked insurance contracts		Total	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
At 1 January	422,634	351,705	250,244	224,319	672,878	576,024
Deposits received from policyholders under investment contracts	10,225	11,328	-	-	10,225	11,328
Payments made to policyholders of, and fees deducted from, investment contracts	(23,879)	(17,736)	-	-	(23,879)	(17,736)
Change in technical provision as shown in the technical account	66,609	77,337	19,028	25,925	85,637	103,262
At 31 December	475,589	422,634	269,272	250,244	744,861	672,878

Financial liabilities in respect of unit linked investment contracts are carried in the balance sheet at amortised cost The related fair value of these financial liabilities is £475 6m for both the Group and Society, (2009 £422 6m) which is equivalent to the amount payable under the contract, based on the current fund value

For unit linked insurance contracts, the valuation 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

21 Capital and Liabilities – Regulatory Capital Position

a) Capital Management

The Society 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 The Society and the Group have met all regulatory capital requirements throughout the year

Separate capital resource requirements are calculated for the six 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 The documents constituting the six 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

With profits sub funds 2 to 6 (WPSF2 to WPSF6) were created following various schemes of transfer of business

The Society and Group have no shareholders' funds and also have no borrowings

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

In presenting the capital statement and movement in capital resources in sections (b) and (c) below, the smaller sub funds, 2, 3 and 5 have been merged The capital resources presented below are as calculated on a regulatory basis for the Insurance Annual Return The capital resources on a realistic basis are not shown

b) Capital Statement

2010

	RM WPSF £000	WPSF 2, 3 and 5 £000	WPSF 4 £000	WPSF 6 £000	Total Society £000	Consolidation adjustments £000	Group Total £000
Fund for Future Appropriations	74,706	9,827	18,904	1,517	104,954	(58)	104,896
Adjustments on to regulated basis							
Positive valuation differences	-	-	-	-	-	-	-
Negative valuation differences	(8,696)	-	-	-	(8,696)	-	(8,696)
Inadmissible assets	(2,899)	-	-	-	(2,899)	58	(2,841)
Total available capital resource	63,111	9,827	18,904	1,517	93,359	-	93,359

The capital statement shows an increase in available capital resources of £14 4m during the year which is analysed in the table in section (c) below As the Group is not required to report results on a "realistic" basis, the policyholder liabilities do not include allowance for future final bonuses

Analysis of policyholders' liabilities

	RM WPSF £000	WPSF 2, 3 and 5 £000	WPSF 4 £000	WPSF 6 £000	Total Society and Group £000
With profits insurance contracts	12,952	16,795	110,641	76,485	216,873
With profits investment contracts	283	-	-	9,796	10,079
Non profit insurance contracts	503,195	19,676	41,738	57	564,666
Non profit investment contracts	10,325	-	-	-	10,325
	526,755	36,471	152,379	86,338	801,943
Unit linked insurance contracts	269,086	186	-	-	269,272
Unit linked investment contracts	475,589	-	-	-	475,589
Total technical liabilities net of reassurance	1,271,430	36,657	152,379	86,338	1,546,804

2009

	RM WPSF £000	WPSF 2, 3 and 5 £000	WPSF 4 £000	WPSF 6 £000	Total Society £000	Consolidation adjustments £000	Group Total £000
Fund for Future Appropriations	74,090	7,582	9,496	200	91,368	(87)	91,281
Adjustments on to regulated basis							
Positive valuation differences	-	-	-	-	-	-	-
Negative valuation differences	(7,763)	-	-	-	(7,763)	-	(7,763)
Inadmissible assets	(4,688)	-	-	-	(4,688)	87	(4,601)
Total available capital resource	61,639	7,582	9,496	200	78,917	-	78,917

The capital statement shows a increase in available capital resources of £15 9 during the year which is analysed in the table in section (c) below As the Group is not required to report results on a "realistic" basis, the policyholder liabilities do not include allowance for future final bonuses

Analysis of policyholders' liabilities

	RM WPSF £000	WPSF 2, 3 and 5 £000	WPSF 4 £000	WPSF 6 £000	Total Society and Group £000
With profits insurance contracts	13,497	20,964	116,700	74,515	225,676
With profits investment contracts	243	-	-	9,914	10,157
Non profit insurance contracts	453,468	20,444	46,750	79	520,741
Non profit investment contracts	11,097	-	-	-	11,097
	478,305	41,408	163,450	84,508	767,671
Unit linked insurance contracts	250,081	163	-	-	250,244
Unit linked investment contracts	422,634	-	-	-	422,634
Total technical liabilities net of reassurance	1,151,020	41,571	163,450	84,508	1,440,549

c) Movement in capital resources

2010

The capital statements show an increase in available capital resources of £14 4m during the year which is analysed in the table below 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 reduction in capital resources will necessitate future final bonuses, which are not guaranteed, being reduced

	RM WPSF £000	WPSF 2, 3 and 5 £000	WPSF 4 £000	WPSF 6 £000	Total Society and Group £000
Available Capital Resource at 1 January 2010	61,639	7,582	9,496	200	78,917
Expected change based on December 2009 assumptions	4,991	(2,052)	381	553	3,873
Valuation method and assumption					
Relating to benefit guarantees	881	142	-	(640)	383
Mortality assumptions	24	(1)	1	(17)	7
Expense and inflation items	(9,044)	(169)	(726)	(135)	(10,074)
Valuation discount rate methods	2,762	2,101	9,250	183	14,296
Credit default risk	(4,177)	(78)	(661)	(471)	(5,387)
	(9,554)	1,995	7,864	(1,080)	(775)
Non guaranteed bonuses paid	1,168	164	(983)	(705)	(356)
Investment items					
Equity and property movements	7,101	1,805	2,105	2,131	13,142
Interest rate changes	(30)	555	-	108	663
	7,071	2,360	2,105	2,239	13,775
Changes in provisions	(1,435)	-	(326)	68	(1,693)
Inter-fund transfers	77	-	-	(77)	-
Movement in inadmissible assets	(1,050)	-	-	-	(1,050)
Other items	204	(221)	367	319	668
	(2,204)	(221)	41	310	(2,075)
Available capital resource at 31 December 2010	63,111	9,827	18,904	1,517	93,359

Final bonuses are paid from the Profit and Loss Account but are not included in the long term business provision and thus payments made reduce capital resources

Other factors include the difference between the actual and expected emergence of margins retained in the valuation basis Changes in the valuation basis and methodology overall have had minimal impact However, the individual impact of these changes on each fund has been affected by the mix of business and assets held in each fund sensitivities of the valuation basis to changes in assumptions are reported in note 18

At 31 December 2010 available capital represented 228% of the Group's total capital resource requirements (2009 – 167%)

2009

The increase in available capital resources of £15 9m during 2009 is analysed in the table below

	RM WPSF	WPSF 2, 3 and 5	WPSF 4	WPSF 6	Total Society and Group
	£000	£000	£000	£000	£000
Available Capital Resource at 1 January 2009	43,562	8,735	10,768	1	63,066
Expected change based on December 2008 assumptions	5,218	(2,129)	335	579	4,003
Valuation method and assumption					
Relating to guaranteed annuities	(352)	(426)	-	(131)	(909)
Mortality assumptions	742	(8)	(1,148)	(172)	(586)
Expense and inflation items	(24)	22	100	(58)	40
Investment return guarantees	-	-	-	523	523
Credit default risk	1,718	16	551	189	2,474
	2,084	(396)	(497)	351	1,542
Non guaranteed bonuses paid	(657)	(3)	(272)	(448)	(1,380)
Investment items					
Equity and property movements	5,287	1,769	(805)	3,022	9,273
Interest rate changes	1,729	(444)	-	(545)	740
	7,016	1,325	(805)	2,477	10,013
Changes in provisions	(149)	-	-	245	96
Inter-fund transfers	3,651	-	-	(3,651)	-
Reduction in inadmissible assets	-	-	-	-	-
Other items	914	50	(33)	646	1,577
	4,416	50	(33)	(2,760)	1,673
Available capital resource at 31 December 2009	61,639	7,582	9,496	200	78,917

Final bonuses are paid from the Profit and Loss Account but are not included in the long term business provision and thus payments made reduce capital resources

Other factors include the difference between the actual and expected emergence of margins retained in the valuation basis

Changes in the valuation basis and improved investment returns have been beneficial overall, increasing the available capital resources However, the individual impact of these changes on each fund has been affected by the mix of business and assets held in each fund Sensitivities of the valuation basis to changes in assumptions are reported in note 18

Interfund transfers includes £3 6m of assets transferred from WPSF6 to RMWPSF to repay a loan made in 2008 to ensure that WPSF6 maintained positive capital resources

At 31 December 2009 available capital represented 167% of the Group's total capital resource requirements

22. Tangible Assets

Group and Society

	Computer Hardware and software £000	Office Equipment £000	Total £000
Cost			
Brought forward	1,097	1	1,098
Additions	420	89	509
Disposals			
Fully depreciated items written off	(642)	(1)	(643)
At 31 December 2010	875	89	964
Depreciation			
Brought forward	587	1	588
Charge for the year	499	12	511
Disposals			
Fully depreciated items written off	(642)	(1)	(643)
At 31 December 2010	444	12	456
Book value at 31 December 2010	431	77	508
Book value at 31 December 2009	510	-	510

23 Deferred Acquisition Costs

	2010 Group £000	2010 Society £000	2009 Group £000	2009 Society £000
On insurance contracts and with profits investment contracts	391	391	481	481

24 Deferred Taxation

	Group £000	Society £000
Deferred tax asset at 1 January 2010	609	609
Movement in undiscounted deferred tax asset	(781)	(781)
Movement in discount	77	77
Deferred tax provision at 31 December 2010	(95)	(95)

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

	Group 2010 £000	Group 2009 £000	Society 2010 £000	Society 2009 £000
Deferred tax (provision)/asset on				
Unrealised gains	(621)	-	(621)	-
Unrelieved expenses	611	796	611	796
Deferred acquisition costs	(59)	(72)	(59)	(72)
Other	(17)	(29)	(17)	(29)
Undiscounted deferred tax (provision)/asset	(86)	695	(86)	695
Discount	(9)	(86)	(9)	(86)
Discounted deferred tax (provision)/asset	(95)	609	(95)	609
Deferred tax liability on pension asset (note 27)	(19)	(93)	(19)	(93)
(Provision)/asset at end of year including deferred tax on pension asset	(114)	516	(114)	516

At 31 December 2010 deferred tax assets totalling £5 6m (2009 - £5 9m) have not been recognised in the Society's balance sheet because there is no certainty of sufficient future profits and gains arising against which the losses giving rise to the asset can be offset

Deferred tax is provided on certain unrealised gains and deemed disposals within the linked funds This provision is reflected in assets held to cover linked liabilities The amount of the provision at 31 December 2010 is £4 2m (2009 - £4 2m) and the movement is reflected in the tax expense disclosed in note 11

25 Provisions for Other Risks and Charges

Group and Society

	Deferred Tax £000	Compen-sation Provision £000	Dilapidat-ions Provision £000	Onerous Leases £000	Total £000
Provision at 1 January 2010	-	-	288	340	628
Deferred tax asset at 1 January 2010	(609)	-	-	-	(609)
Amount charged/(credited) to profit and loss account	704	93	123	1	921
Amounts utilised during the year	-	-	(67)	(63)	(130)
Provision at 31 December 2010	95	93	344	278	810

The provision for future expenses on onerous leases on former offices is stated after offsetting projected income from subletting some of the properties The longest lease to which the provision relates does not expire until 2017

The dilapidations provision brought forward relates to funds received from the former tenant of a property acquired during the previous year It was partly utilised utilised during 2010 as the property acquired was repaired The remainder will be used in 2011 as dilapidation repairs at the previous offices of the Society are carried out The additional provision created in the year relates to an amount received from a former tenant on a former office This should be utilised in 2011

The compensation provision relates to a claim from a policyholder which was upheld by the Financial Ombudsman Service The provision will be utilised in 2011

26 Other Creditors including taxation and social security

	2010 Group £000	2010 Society £000	2009 Group £000	2009 Society £000
Taxation and Social Security	1,649	1,554	1,040	942
Other creditors	1,305	1,281	89	71
	2,953	2,835	1,129	1,013

27 Pension Costs

Until 30 June 2010, the Society's employees (where eligible) were members of Reliance Pension Scheme which provided defined benefits to members based on their service with the Society and level of remuneration

As of 30 June 2010, this defined benefit scheme was closed to future accrual for all but 2 members and all remaining active members become deferred members

The Society's employees were then offered the chance to participate in a defined contribution scheme to which the Society would also contribute

The closure of the scheme to future accrual has been treated as a curtailment and the impact can be seen in the pension cost charged to the profit and loss account

Also in the year, the pension scheme trustees purchased a bulk annuity policy to secure the benefits payable in respect of the pension scheme's existing pensioners This event has been treated as a settlement as it removes risk from the scheme The effect of this settlement can be seen in the pension cost charged to the profit and loss account

Defined Contribution Scheme

The contribution to the defined contribution scheme, which commenced on 1 July 2010, in the year amounted to £0 1m (2009 nil)

Defined Benefit Scheme

During the year ended 31 December 2010 the Society made contributions of £2 8m (2009 £0 7m) The scheme is now closed to future accrual for all but 2 members

The last full valuation of the scheme was carried out as at 1 April 2010 and this was updated to 31 December 2010 by qualified independent actuaries

The principal assumptions used in the updated valuation were as follows

At 31 December	2010 %	2009 %
Rates of inflation		
• Retail Prices Index (RPI)	3 5	3 5
• Consumer Price Index (CPI)	3 0	n/a
Increases to pensionable salary	3 0	6 5
Increases to pension payment (non-GMP)	2 5	3 5
Discount rate	5 7	5 8

The mortality assumptions used were

	2010 years	2009 years
Longevity at age 65 for current pensioners		
Men	22 3	19 9
Women	24 0	23 0
Longevity at age 65 for future pensioners		
Men	24 7	21 1
Women	25 8	24 1

Following changes to statutory revaluation, CPI rather than RPI is now used in calculating deferred revaluations and increases to post 6 April 1988 CMP pensions in payment The effect of this is included within actuarial loss on liabilities due to assumption changes

Analysis of net pension scheme assets and liabilities

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

At 31 December	Fair Value 2010 £000	Expected long-term rate of return 2010 %	Fair Value 2009 £000	Expected long-term rate of return 2009 %
Market value of scheme assets				
Equities	6,258	8 25	18,566	8 50
UK Government fixed interest securities	5,525	4 25	10,463	4 50
Corporate bonds (inc overseas bonds)	5,936	5 60	5,828	5 70
International hedge funds	-	-	570	8 40
Other	1,890	2 00	2,138	2 00
Total market value of scheme assets	19,609		37,565	
Present value of scheme liabilities	17,942		(36,682)	
Surplus in the scheme	1,667		883	
Restriction of surplus	(1,500)		-	
Limited surplus	167		883	
Related deferred tax	(19)		(93)	
Net pension scheme asset	148		790	

Reconciliation of present value of scheme liabilities

	2010 £000	2009 £000
At 1 January	36,682	31,031
Current service cost	596	934
Interest cost	2,119	2,008
Actuarial gain on liabilities due to experience	(128)	(1,107)
Actuarial loss on liabilities due to assumption changes	456	5,949
Benefits paid	(891)	(2,133)
Past service cost	(1,911)	-
Curtailments	(2,263)	-
Settlements (reduction in liability)	(16,718)	-
At 31 December	17,942	36,682

Post service costs relates to the removal of the practice of granting discretionary pension increases on pre 6 April 1997 non-GMP pension during the year

Reconciliation of fair value of scheme assets

	2010 £000	2009 £000
At 1 January	37,565	32,832
Expected return on scheme assets	2,535	1,994
Actuarial gain/(loss) on assets	(19)	4,086
Contributions paid by the employer	2,775	675
Contributions paid by the members to AVC schemes	48	111
Benefits paid	(891)	(2,133)
Settlements (annuity cost)	(22,404)	-
At 31 December	19,609	37,565

Scheme assets do not include any of Reliance Mutual Insurance Society Limited's own financial instruments or any property occupied by Reliance Mutual Insurance Society Limited

The expected return on scheme assets is derived as the weighted average of the individual expected rates of return on each major category of assets

The actual return on scheme assets in the year was a gain of £2 516m (2009 gain £6 080m)

Analysis of amounts charged to profit and loss account

	2010 £000	2009 £000
Investment income		
Expected return on pension scheme assets	2,535	1,994
Interest cost of pension scheme liabilities	(2,119)	(2,008)
Included in Investment Income	416	(14)
Pension cost		
Current service cost	548	823
Past service costs	(1,911)	-
Gains in curtailments	(2,263)	-
Losses on settlements	(5,686)	-
Included in net operating expenses	2,060	823

Analysis of actuarial pension scheme loss after tax

	2010 £000	2009 £000
Actual return less expected return on pension scheme assets	(19)	4,086
Experience gains and losses arising on scheme liabilities	128	1,107
Effect of changes in demographic and financial assumptions	(456)	(5,949)
Restriction of surplus	(1,500)	-
Actuarial loss recognised	(1,847)	(756)
Deferred tax thereon	213	80
Pension scheme loss after tax	(1,634)	(676)

As the Group does not prepare a "Statement of Total Recognised Gains and Losses" these losses are included in the technical account as Actuarial losses on pension scheme

Actuarial gains and losses

The cumulative amount of actuarial losses that have been recognised in the profit and loss account, and therefore the Fund for Future Appropriations, net of deferred tax is £3 6m (2009 loss of £1 9m)

Expected contributions

The Society's contributions expected to be paid to the scheme for the year ended 31 December 2011 are estimated to be £1 0m

History of present value of scheme liabilities, fair value of asset values and experience gains and losses

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Present value of scheme liabilities	(17,942)	(36,682)	(31,031)	(35,695)	(36,025)
Fair value of assets	19,609	37,565	32,832	39,245	35,572
Surplus/(deficit)	1,667	883	1,801	3,550	(453)
Restriction of surplus	(1,500)	-	-	-	-
	167	883	1,801	3,550	(453)
Deferred tax	(19)	(93)	(189)	(372)	46
Net surplus/(deficit)	148	790	1,612	3,178	(407)
Experience gain/(loss) on liabilities	128	1,107	345	(3)	13
Experience gain/(loss) on assets	(19)	4,086	(8,376)	(397)	583

28 Contingent Liabilities and Other Commitments

There are no contingent liabilities

29. Operating Lease Commitments

The Society has operating lease commitments in respect of its former head office premises and three former branch offices The commitment during the year following the year of these accounts under non-cancellable leases is as follows

	2010 £000	2009 £000
Land and buildings		
Expiring in less than 1 year	61	-
Expiring between 2 to 5 years	109	311
Expiring thereafter	10	-

Two of the three former branch offices are sublet for less than the cost of the head lease and the remaining former branch is vacant An onerous lease provision is in place for these former branch offices and any shortfall in net rental costs is charged against this provision Therefore the Profit and Loss charge for these former branch offices will not equal the operating lease commitment included above

30 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 wholly owned subsidiaries

During the year the Society 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

		2010 No of Units 000	2010 Unit Value £000	2009 No of Units 000	2009 Unit Value £000
a	Group holdings				
	Units purchased	24	107	18	77
	Units sold	43	200	106	402
	Holding at 31 December	69,094	351,550	68,083	312,774
b	Society holdings				
	Units purchased	24	107	18	77
	Units sold	43	200	106	402
	Holding at 31 December	69,084	351,499	68,072	312,725

In addition the Reliance Pension Scheme invested in The British Life Unit Trust 1,837,000 units were held at the start of the year and 815,500 at the end of the year due to sales throughout the year The value of the holding at 31 December 2010 was £4,149,264 (2009 – £8,439,178)

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

During the year the Society provided a 99 99% subsidiary company, The Reliance Fire and Accident Insurance Corporation Limited, with management, investment and administration services for which it charged £24,000 (2009 £26,000)

As at the balance sheet date the balance due to the Society from the Reliance Fire and Accident Insurance Corporation Limited was £13,000 (2009 £7,000)

31. Post Balance Sheet Events

On 16 March 2011, the Society exchanged contracts with a third party to promote a transfer of business under The Financial Services and Markets Act 2000 The transfer is subject to various conditions and FSA and High Court approval

It is not possible to estimate the financial affect of this transaction on our financial statements