

Reliance Mutual Insurance Society Limited

RELIANCE MUTUAL
INSURANCE SOCIETY LIMITED

ANNUAL REPORT AND AUDITED GROUP FINANCIAL STATEMENTS 2011

Registered in England No 491580

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Directors

S Creedon FIA, ASA, MAAA, FSAI	Chairman
W Au MSc FCMA	
M Goodale BA FIA	
R P J Randall BSc FIA	
F B Sanjana MA FCII	
N A Sherry ACII	

Senior Management

M Goodale BA FIA	Chief Executive
P G Bowden BSc FCII	Head of Strategy Implementation
R E Cumming	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
7 More London Riverside
London
SE1 2RT

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 60)
(Appointed 11/03/2008, Chairman 01/06/2008)

Chairman
Non-executive Director

Seamus Creedon is a qualified actuary. He is a management consultant and former 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 former member of the council of the Institute of Actuaries and is project manager for Groupe Consultatif Actuariel European Solvency II project. He is also a non-executive director of a number of insurers in Britain and Ireland.

W AU MSc FCMA (Age 55)
(Appointed 28/10/2010)

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 and as Strategic Adviser to China Construction Bank UK. Prior to these roles, she was Chief Executive of a corporate pensions insurance company (Tactica) and before that held several senior executive posts at Barclays Bank UK Board as COO and Deputy to the UK CEO and finally at Barclays Group as Director of Global Servicing. She has also held the role of UK Finance Director (Life and General) for Royal Sun Alliance and UK Finance and Actuarial Director of Hill Samuel Investment Services Group.

M GOODALE BA FIA (Age 56)
(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 Vice Chairman of the Association of Financial Mutuals having served on that Board for over 4 years.

R P J RANDALL BSc FIA (Age 62)
(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 MA FCII (Age 56)
(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 54)
(Appointed 24/03/2010)

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

2011 continued to be challenging for the Group particularly in the latter part of the year, as turmoil returned to financial markets due to sovereign debt concerns in the Eurozone. As a result the Group's regulatory solvency ratio slipped from 228% to 158%, but regulatory requirements are still well covered. A similar trend was shown for capital adequacy as measured on the more realistic Individual Capital Assessment (ICA) basis.

The Group's activities have continued to be focused on management of capital resources, and preparing for the significant regulatory changes occurring in 2013, whilst still continuing to look for profitable ways to recruit new members.

The Group's flagship product, an annuity for smokers was refined in 2011 to provide further rate improvements for smokers with other impairments. The Group also launched a term insurance product in Holland in partnership with Jubilee Europe.

In May 2011 the Group was pleased to announce that Reliance had been selected as one of only 5 suppliers of annuity products to NEST, the national pension scheme being launched later in 2012.

Investment Markets

Investment markets globally experienced a difficult year, as both bonds and equities were blown about by one-off events, such as the Japan Tsunami and by sentiment surrounding the European sovereign debt crises and downgrading of European and US government bonds. Interest rates globally remained low, with the US Federal Reserve, unusually, stating its intention to keep rates at current levels until 2014.

A healthy first half for equities was quickly reversed and of all the major markets, only the US managed to rise over the year as a whole, with the Dow Jones gaining 5.5% against falls of 19.7% in the Japanese Topix Index, 12.4% in the Bloomberg European 500 and 6.7% in our own FTSE All Share Index. Taking account of currency movements, the returns to Sterling investors were +6.1% from the US and -14.6% each from Japan and Europe. The MSCI Emerging Markets Index also lost 14.1% in Sterling terms.

In other asset classes, crude oil prices remained largely unchanged, whilst gold rose by a further 10.1%, ending the year at \$1563/oz, having peaked in the Autumn at \$1900/oz. Property, as measured by the IPD All Property Index, gained 8.1%. The strongest performance however, came from UK gilts, which, despite a fundamental unattractiveness at present, were buoyed up by a number of artificial factors, not least the concerns surrounding certain European sovereign issues. The All Gilts Total Return Index rose by 15.6% over the year.

New business

The Society continued to be cautious on new business volumes with sales falling by 17% on an Annual Premium Equivalent basis over 2010.

Member Bonuses

Whilst bonus rates were either maintained or marginally increased in early 2011, the market turmoil noted above forced the Board to make significant reductions in final bonus rates for all with profits policies other than those in sub funds WPSF5 (former University Life policies) and WPSF6 (former Hearts of Oak Friendly Society policyholders).

All bonus rate changes continue to be made with the aim of ensuring the Society treats with profits policyholders fairly and in accordance with the Society's established Principles and Practices of Financial Management (see page 21).

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 profit policies. The FSA asked firms to review the fairness of treatment of policyholders in with profit 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's conclusion that the Society had acted fairly and in the best interest of members was reviewed by the FSA in early 2011 and they accepted that the strategy adopted since 2001 is likely to have resulted in an outcome that is no worse for with profit policyholders than the alternative run off and distribution strategy. The Board's view is that the strategy provided a better outcome.

The Board has decided that it needs to give greater clarity to members about the capital available for the main groups of policies and members and the Society's future strategy. During the early summer of 2012 the Society will ask members to endorse the way in which the Society is run. Members received a mailing in February 2012 outlining what the Society is seeking and why. Voting packs will be sent to members in late April/May. Members will be asked to vote on a Creditor Scheme of Arrangement which will then be presented to the High Court for approval.

Preparation for this process started in 2011, and there have been frequent discussions with external advisers, the FSA and an Independent Actuary who has been appointed to report to the Courts.

The Board believes that seeking member endorsement through a Court Scheme provides the greatest security of members' interests for the future, and the FSA is supportive of the process being followed.

With-profits and mutual governance

The FSA issued a consultative paper on With Profits Governance in February 2011. This proposed a number of measures to strengthen the regulations in this area. The Board views some of the measures as being disproportionate and others as being inappropriate for mutual insurers. The FSA received a number of critical responses to the consultation, and chose to enter into further consultation with individual firms which delayed the expected Policy Statement. This was published in March 2012, and the Society welcomes the apparently pragmatic approach to achieving efficient strong governance substantially consistent with our own practice.

The Society continues to be fully committed to a mutual ethos, and welcomes the reference in the FSA's March 2012 paper to the broader consumer interest in having a diverse market in financial services providers in which mutuality has a future alongside proprietary companies.

Mark Goodale, chief executive of the Society, has served as vice chairman of the Association of Financial Mutuals during 2011.

Retail Distribution Review

The Society started implementing the new requirements arising from this regulatory review during 2011, with a view to being ready well in advance of the deadline of 1 January 2013. Due to the simple business model followed by the Society, the changes are not as extensive as many of our competitors are facing.

Solvency II

Solvency II is the new Europe-wide regulatory solvency and reporting regime that all European insurers will have to comply with. It was originally due to be introduced on 1 January 2013, but following delays in developing key elements, the effective date for firms is likely to be delayed until 1 January 2014, albeit this has yet to be confirmed. The FSA requires UK insurers to be ready to report on the new basis during 2013, so the Society continues to work to the original schedule. The Society is well placed to achieve this, although there are significant parts of the rules that are still subject to debate and if these are not resolved soon it will be very difficult to meet the earlier timetable.

The project to deliver requirements covers all aspects of the running of the Society as well as determining capital requirements, and will result in a stronger infrastructure and control environment, which should provide our members with greater confidence that their benefits are secure.

Gender Discrimination

Some European countries, including the UK, had interpreted the 2007 Gender Directive as allowing an exemption for insurance, thereby permitting insurers to offer different premium rates to males and females. The European Court of Justice ruled on a test case in March 2011 that this was incorrect, and that insurers would have to remove any gender discrimination in premium rates by 21 December 2012. The UK Treasury provided guidance on the implications for UK insurers, which makes it clear that this only applies to policies taken out after the due date, so no existing policy is affected.

The Society will implement the necessary changes by the required date. The main change will be offering the same annuity rates to males and females from the required date. Similar action will be taken for any other product offered.

Technology

The Society continued to invest in the infrastructure required to deal with the demands of regulatory and statutory reporting and to enable the Society to operate efficiently.

A new actuarial valuation platform was successfully implemented during the year.

Governance

Since joining the Board in March 2008 (and becoming Chairman on 1 July 2008), I have always been impressed by the Board's commitment to a high standard of corporate governance and, most importantly, how this is balanced within the organisation without being overly cumbersome or expensive. We continued to apply the relevant provisions of the revised Annotated Combined Code on Corporate Governance for Mutual Insurers during 2011, except as set out in the corporate governance report.

The Board recognises that it is accountable to members for good governance to facilitate efficient and effective management in order to deliver value over the long term, within appropriately established risk parameters. The Directors, both individually and collectively, take governance seriously and I am satisfied that our Board operates effectively, is properly engaged on critical matters and that all Directors set aside the time required to fulfil their duties. Further details are set out in the corporate governance section.

Centenary

13 March 2011 was the Society's centenary. The event was celebrated with a commemorative birthday cake in the Society's offices.

The Society has upheld a mutual ethos throughout the past century through providing good quality products backed by a friendly professional service, and we look forward to continuing to do so for the next 100 years.

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.

We are also considering how the mutuality of the Society can be used to enhance our offerings of products and services to prospective members.

We continue to look to strengthen and protect the Society's capital position to ensure that we can withstand future market turbulence.

The security and longer term interests of our members continue to be of paramount importance to the Board.

Staff and Management

The Society has been living through some extremely challenging times, as it deals with difficult economic conditions, with their impact on markets, as well as needing to ensure compliance with a tidal wave of regulatory attention and change. I would like to thank all staff for their continued dedication, support and hard work in ensuring that the Society continues to meet the expectations of members through this period.



S. CREEDON
Chairman
26 March 2012

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 December 2011. 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 24, show a transfer from the fund for future appropriations of £19.8m (2010: transfer to the fund of £13.6m). The total assets of the Group are £1,673.5m (2010: £1,712.1m).

The results of the Group in the year reflect various factors. Falling interest rates, widening credit spreads and falling equity markets have led to an increase in technical provisions. Technical Provisions have also been strengthened to reflect the increased expense base required to meet the ever increasing regulatory requirements for insurance businesses.

The total assets of the Group decreased to £1,673.5m with the primary factor being the decrease in the value of unit linked funds mainly due to the fall in equity markets. This fall was partially offset by the increased value of other investment assets which are mainly corporate bonds and gilts.

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 when it is introduced.

Principal Risks and Uncertainties

Risk management within the Group is addressed by means of a risk management strategy and a risk management and internal controls framework.

The Group is committed to establishing and maintaining a systematic approach to the identification, assessment, monitoring, management and reporting of risk. Risk management is embedded throughout the organisation from the Board considering strategic risks and risk appetite at least annually through to individual staff members discussing risks (and controls) with their line managers.

The Audit and Risk Committee provide assurance of the risk management framework and associated control environment.

The Group uses this risk framework to assess the impact of risks on economic capital. The process is risk based and uses ICA 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 such as credit risk, relating to the performance of those financial assets supporting policyholder liabilities, are monitored by our Investment Committee on a continuous basis.

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 forwards

The Creditor Scheme of Arrangement referred to in the Chairman's statement will, if approved by members, ratify the strategy of the Society and clarify the capital available for the main groups of policies and members

The Group continues to seek growth through product sales to niche markets and selective acquisitions of blocks of business to add further to the scale of the organisation for the long term benefit of policyholders. The Society is also looking to build on its mutuality and identify what it can offer to members to differentiate it in the future. It is also continuing to look at opportunities to work alongside others

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

	<u>2011</u>	<u>2010</u>	
New Business (APE)	£4.3m	£5.1m	Annual Premium Equivalent (APE) is new regular premiums plus 10% of single premiums (including amounts in respect of investment contracts)
Total Assets	£1,673.5m	£1,712.1m	
(Decrease)/Increase in fund for future appropriations	(£19.8m)	£13.6m	See note 12 to the financial statements for further details
Fund for future appropriations	£85.1m	£104.9m	
Regulatory solvency ratio	158%	228%	
Number of Employees (FTE)	71.5	65.0	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 disappointed to report the decline in the year. They illustrate how the Group has been affected by the turbulence in the world economy during 2011. 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 2011 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 21.

Directors

The directors listed on page 2 held office throughout the year, unless otherwise stated. Ms Au and Mr Sherry will retire by rotation at the Society's Annual General Meeting and, being eligible, will 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 kept informed through the Staff Consultative Committee, which is regularly consulted on matters relating to employees' pay and benefits.

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 operated a defined benefit scheme for employees for many years. This scheme closed to future accruals for all but 2 members in June 2010. In its place, the Society offers a defined contribution scheme. See note 27 to the financial statements for further details.

Corporate Social Responsibility

As a mutual, the Society's principal focus is on its members and policyholders. However, the importance of having responsible policies for staff, customers and the community is recognised and the potential impact of key social responsibility issues is considered as a matter of course within the overall running of the organisation.

Examples of proportionate and cost effective work in this area includes a recycling policy, support of staff fund raising events and a commitment to Tunbridge Wells as the Society's registered and administrative office.

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
26 March 2012

CORPORATE GOVERNANCE

Compliance with the Code

An annotated version of The Combined Code on Corporate Governance ('the Code') was produced for mutual insurers in July 2005. This was revised in February 2008 and in October 2010 the Association of Financial Mutuals published a new annotated version of the Code based on The UK Corporate Governance Code which had begun to apply to all companies with a Premium Listing of equity shares in June 2010.

For mutual insurers, the October 2010 version of the Code applies for the first time in this reporting year. The Code attempts to promote better board behaviour by refocusing attention on the Code principles. While the Code does not demand compliance with a rigid set of rules, it does require companies to apply the Main Principles and report on how they have done so. The principles are the core of the Code and the way in which they are applied should be the central question for a board as it determines how it is to operate according to the Code.

The Board of Reliance Mutual 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 Code throughout this reporting period unless the contrary is stated below.

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, and
- 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, and 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 UK Corporate Governance 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, 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.

The Board 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 UK Corporate Governance 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

The Board 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. 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 2011 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 2011 was as follows:

Director	Board		Investment Committee		Nomination and Remuneration Committee		Audit and Risk Committee		Fair Member Benefits Committee	
	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	-	-	2	2	-	-	4	4
M Goodale	10	10	6	6	2	2	-	-	4	4
W Au	10	10	-	-	2	2	3	3	4	4
RPJ Randall	10	10	-	-	2	2	3	3	4	4
F B Sanjana	10	10	6	6	2	2	3	3	4	4
N A Sherry	10	9	-	-	2	2	3	3	4	4

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 November 2011. 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 completed in early 2012. Mazars LLP carried out an external and fully independent evaluation, focusing on the performance of the Board and committees. Mazars' evaluation was carried out alongside a separate process to evaluate individual contributions – appropriate actions, to ensure that individual and collective contributions remain effective, will be taken as the results of the evaluations are digested. Evaluation took account of the two non-executive directors who continue to serve beyond their sixth year - to ensure that their experience within the Board's operations continues to provide benefit to the Group in a suitably independent manner.

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. There are plans for all directors to voluntarily stand for reappointment on an annual basis with effect from the 2013 AGM, although as this was not resolved to be put into effect in 2011, the provisions of the Code have not yet been complied with in this respect.

Internal controls

The Board of the Society is ultimately responsible for maintaining the system of internal control and monitoring its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The key features of the system of internal control are

- A detailed Board Governance process, setting out a clear organisational structure, roles and responsibilities, authorities and matters reserved for each Board sub-committee,
- A strategic plan process which sets a medium-term strategy based on a clear understanding of the risk inherent in the environment in which it operates,
- A planning and budget process that delivers detailed annual budgets and forecasts for Board approval,
- Management information systems enabling the Board to receive comprehensive reporting of financial and operational performance,
- A Risk Management function which maintains the risk management framework and facilitates management's regular identification, assessment and reporting of the key risks,
- A set of formal policies which govern the management, control and oversight of the key risks faced by the Society,
- A detailed annual capital assessment on a realistic basis, resulting in a greater understanding of the financial consequences of the risks faced by the business, and enabling effective capital management,
- An Internal Audit function which reports to the Board on the effectiveness of internal controls in relation to the key risks identified. Internal audits are undertaken in accordance with an annual risk based plan approved by the Audit and Risk Committee, and
- A Compliance function which identifies and monitors the control of our compliance risks and monitors compliance with regulatory requirements.

The Board considers that the controls effective during 2011 are appropriate to the needs of the Society.

Certain Group subsidiaries are regulated entities, and as such are subject to the supervision of the FSA over their activities, including their systems of business control.

Business model

The Group's aims are to offer fair-value life insurance and investment products to individuals, and to provide fair treatment, security and cost effective service to all policyholders, including those acquired from other companies. Guiding principles to help in the achievement of these aims are that

- Unit costs do not grow in real terms,
- Business developments do not constrain bonuses,
- Excess surplus is distributed to with profit policyholders, and
- Diseconomies of scale are avoided by ensuring policies added exceed policies going off.

A twin-track strategy is employed to achieve the aims

- The acquisition of books of individual life business, and
- The writing of niche new business product lines.

Internal supporting strategies are encouraged to further assist by

- Maintaining a low cost environment,
- Implementing operational efficiencies, and
- Treating Customers Fairly

Board Committees

Audit and Risk Committee

The directors who served on the committee during the year were W Au (as chair), R P J Randall, F B Sanjana and N A Sherry. 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. Non-audit services provided by the external auditors during 2011 related to the review of papers produced covering the impact of the adoption of International Reporting Standards as a basis of producing financial statements. 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

This committee comprises the full Board and is chaired by the Senior Independent Director. 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

Nomination

- 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, and
- Determine the membership and chairmanship of the Board Committees

Remuneration

- 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, and

- 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 increasing time commitment and extending responsibilities within the 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, to promote the long-term success of the Group and provide keen incentives to perform at the highest level. There are no notice periods in excess of one year for executive directors. 2011 was the third 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 third vote bettered the first two slightly with 97% voting in favour of the report (compared with 96% in the previous two years). Results from this vote will continue to be used to advise future decisions.

Information is required to be disclosed in relation to holdings of securities in the Society, particularly those carrying special voting rights and rights with regard to control of the Society. There are no securities in issue by the Society. Each director holds one of the Society's policies as required by the Articles of Association in force at the time they were appointed. These policies do not have any different voting rights or controlling effects than those of members holding similar policies.

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. More details of the Investment Committee's role can be found in Note 2 to the financial statements.

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.

Work to develop the committee's governance, in line with the FSA's own developing regulations and guidance, continues into 2012 and is expected to be shaped by preparations for the policyholder vote.

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 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 at the time had acted properly, fairly and in the best interests of members. The one meeting in 2011 was held to

ensure that all issues had been properly concluded and that the Committee could be disbanded. The FSA has accepted that the strategy adopted since 2001 is likely to have resulted in an outcome that would have been no worse for with profits policyholders than the alternative run-off and distribution strategy.

Member relations

The Board is committed to developing member dialogue and involvement. The member relations strategy is available on request and in the members' section of the Group's website. In 2011, voting members received at least 20 working days' notice of the AGM. 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, the format of the notice for the 2011 AGM was developed to be more customer-friendly and each notice issued continued to be accompanied by a freepost envelope to facilitate the return of the proxy voting form. 7,979 members took the opportunity of voting in this manner – an increase of 64% over the previous year and representing a total of 9% of those eligible to receive the notice of the meeting. In 2011 the AGM was again 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. 28 members attended the meeting and their lively contribution to the day, including 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. The Society's new Articles of Association have been on the website since they were proposed for adoption at the 2011 AGM, as have an explanatory statement detailing the changes proposed.

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. Input has been sought from members not only in and around General Meetings but also involving focus groups, targeted research and questionnaires specific to the Society's strategy. Plans for 2012 involve developments following-on from that input and to seek further views from all members of the Society.

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. Jim Randall is the Society's Senior Independent Director and he can be written to at the Group's registered office or contacted directly on SID@reliance mutual.co.uk. Mr Randall has received tailored induction in relation to the role and has attended the Group's Head Office in order to be briefed on the member relations strategy and to discuss and understand the day-to-day concerns raised by members. Mr Randall also spoke about his role when addressing the AGM in July 2011.

Audit of code compliance

The external auditor has not reported on the corporate governance statement and hence the Code was not complied with in this respect in 2011. 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 Code is maintained effectively.

Going concern

After making enquiries and considering the uncertainties disclosed in note 1b, 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.

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.

Board remuneration is set annually 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 Vice-Chairman of the Association of Financial Mutuals. He receives no remuneration for this service.

Directors' Emoluments

		Salary/ Fees	Benefits	Total y/e 31.12.2011	Total y/e 31.12.2010
		£	£	£	£
S Creedon	Chairman	61,001	-	61,001	58,502
M Goodale	Chief Executive	299,192	43,023	342,215	295,593
W Au		35,501	-	35,501	32,169
W J Cain	Retired 27 May 2010	-	-	-	14,167
R P J Randall		30,500	-	30,500	29,250
F B Sanjana		40,502	-	40,502	39,250
N A Sherry		30,500	-	30,500	29,251
		<u>497,196</u>	<u>43,023</u>	<u>540,219</u>	<u>498,182</u>

M Goodale's salary of £299,192 (2010 £265,873) included a bonus of £77,540 (2010 £72,606).

Directors' Pension Information

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

	2011 £	2010 £
Defined benefit scheme		
- Accrued annual pension at end of year	11,819	11,819
- Transfer value at end of year	232,835	165,358
Defined contribution scheme		
- Society contribution	22,165	10,132

DIRECTORS' REPORT TO WITH PROFITS POLICYHOLDERS

Introduction

This is the report of the Directors of Reliance Mutual Insurance Society to the with profits policyholders of the Society on the management of the with profits business during 2011

Background

The Society maintains a set of Principles and Practices of Financial Management (the PPFM) that sets out the way in which the with profits business of the Society will be managed. The PPFM is available directly from the Society or from the web-site at <http://www.reliance mutual.co.uk/about-us/with-profits/>

RMIS maintains six separate with profit funds with separate assets

- Reliance Mutual With Profits Sub Fund (RM WPSF) contains all the business originally written by Reliance Mutual, British Life, Burslem Mutual, Nation Life, Templeton Life, Eurolife and SEB Trygg Life. It also contains the without profits and unit linked business originally written by Criterion Life Assurance and Hearts of Oak Friendly Society, and the unit linked and tax exempt business originally written by Time Assurance.
- With profits Sub Fund 2 (WPSF2) comprises the former Criterion Life Assurance with profits fund
- With profits Sub Fund 3 (WPSF3) comprises the former Time Assurance Ordinary Benefit with profits fund
- With profits Sub Fund 4 (WPSF4) comprises the former Time Assurance Retirement Annuity with profits fund
- With profits Sub Fund 5 (WPSF5) comprises the former University Life Assurance Society business
- With profits Sub Fund 6 (WPSF6) comprises the former Hearts of Oak Friendly Society with profits policies

RM WPSF remains open to new business whilst the other sub-funds are closed

Opinion of the Directors of Reliance Mutual Insurance Society

The Directors have reviewed the management of the with profits funds. It is the Directors' opinion that throughout 2011 the funds were managed in accordance with the PPFM.

It is also the Directors' opinion that the exercise of discretion over the same period

- was appropriate
- took full account of policyholders' reasonable expectations and
- maintained fairness between different categories of policy and policyholder

Roles and Responsibilities

The Board of Reliance Mutual has established a sub-committee, the Fair Member Benefits Committee, with the role of making 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. The Terms of Reference of the Fair Member Benefits Committee can be found on the web-site at http://www.reliance mutual.co.uk/pdfs/terms_of_ref_fmhc.pdf or are available directly from the Society.

The With Profits Actuary has a statutory duty to advise the Board when it exercises its discretion in the management of the with profits funds. During 2011, Bob Houlston retired as With Profits Actuary and was replaced by Geoff Ross. The With Profits Actuary must also make an independent report to the with profits policyholders. His report should state whether, in his opinion, this report and the discretion exercised during 2011 may be regarded as having taken the reasonable expectations of the with profits policyholders into account. The With Profits Actuary's report is annexed to this report.

Exercise of Discretion

Regular Bonuses

In February 2011, the Board declared new reversionary bonus rates, for those policies where regular bonuses may be added, to take effect from 1st January 2011. Reversionary bonus rates were unchanged from the previous declaration in February 2010. The PPFM describes the considerations taken into account when deciding upon reversionary bonus rates.

With Profits Payouts

For some types of policies final payouts are enhanced by the payment of a final bonus. In February 2011 new final bonus scales which took effect from 1st March 2011 were declared based on the financial results at the end of 2010 and

- As described in the PPFM, for RM WPSF, 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 remained unchanged throughout 2011 from the 620% set in September 2010. In general, the changes in final bonuses resulted in increases in final payouts compared with the previous year for policies with a similar term.
- For WPSF2, final bonus rates were reduced from the last change in September 2010, but were still higher than those declared in March 2010.
- For WPSF3 and WPSF4, there was no increase in final bonus rates from the last declaration in September 2010 but rates were higher than March 2010.
- As explained in the PPFM, WPSF5 does not have smoothing criteria and so final bonus rates are more volatile than in the other funds. In the declaration in March 2011, final bonus rates were increased.
- For WPSF6, the special final bonus was increased for both life and pensions policies.

Final bonus rates are normally reviewed once a year in February, however, the PPFM states that they will be reviewed more regularly depending upon financial conditions. In August 2011, financial conditions required a review of final bonus rates, equities had fallen significantly in value during the month although fixed interest investments had moved in the opposite direction. As a result new final bonus rates were introduced on 1st September. They had the following impact on payouts:

- In RM WPSF payouts were reduced. The amount varied but in the worst cases was over 11% compared with March 2011.
- In WPSF2 and WPSF3, payouts reduced by up to 3.5% compared with March 2011.
- In WPSF4, payouts reduced by less than 2% compared with March 2011.
- In WPSF5, because of the lack of smoothing and surplus emerging from non-profits business in the fund, payouts increased by almost 7.5%.
- In WPSF6, because the assets are virtually all in fixed interest, final bonus rates remained unchanged.

Investment Strategy

One of the areas of discretion of the Board is in the investment strategy to be followed in each of the sub-funds. Section 3 of the PPFM lists the Principles and Practices that are followed by the Society in deciding upon the investment strategy for the Society. During 2011, the investment strategy of the Society was reviewed in line with the PPFM. The only significant change was that following the improved health of WPSF6, the review of actuarial constraints showed that there was now some freedom to invest in assets other than fixed interest and as a result the Board decided to use this freedom and invest a small amount in equities.

WPSF3

During 2011, the fund size of WPSF3 fell below the £5m threshold where under the original Scheme of Transfer the Society may cease to operate a separate fund and may merge the assets and liabilities of the sub-fund with RM WPSF. The Society chose not to exercise that option during 2011 and decided to maintain WPSF3 as a separate sub-fund. The Board will reconsider this decision during 2012.

Changes to the PPFM

Changes to the PPFM were approved by the Board in September 2011 to reflect consistent wording for each sub-fund regarding the triggering of an interim review of terminal bonus. The Board also agreed to relax the smoothing rule that applies to all sub-funds except WPSF5 by changing the 10% restriction to the change in payouts on similar policies from one year to the next to 15%, and agreed to formalize the frequency of terminal bonus reviews for WPSF5 to half yearly.

REPORT OF THE WITH PROFITS ACTUARY TO WITH PROFITS POLICYHOLDERS

To all with profits policyholders

I have considered the annual report from the Directors of Reliance Mutual to with profits policyholders required under the rules of the Financial Services Authority and the actions and decisions relating to with profits policyholders made by the Society during 2011

It is my opinion that

- the report is a fair statement of how the with profits business has been managed during the year
- the company has exercised its discretion in a reasonable and proportionate 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

G M Ross FIA
With Profits Actuary

BONUS DECLARATION

as at 31 December 2011

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 2011. 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 2012 and 31 December 2012. Current rates of interim bonus are equal to the rates declared for the year ended 31 December 2011.

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 policies 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 2010, 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 Adaptplan and Family Savings Bond)	3.75
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With Profits Sub Fund 4

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RELiance MUTUAL INSURANCE SOCIETY LIMITED

We have audited the Group and Parent company financial statements (the "financial statements") of Reliance Mutual Insurance Society Ltd for the year ended 31 December 2011 which comprise the Group Profit and Loss Account, the Group and Parent company 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 9 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 and express an opinion on 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 Company'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 parent company'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. In addition we read all the financial and non-financial information in the Annual Report and Audited Group Financial Statements 2011 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 parent company's affairs as at 31 December 2011 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 parent company, or
- the parent company'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
26 March 2012

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2011

Technical Account – Long Term Business			2011 £000	2010 £000
	Notes			
TECHNICAL INCOME				
Gross premiums written	3		42,822	52,239
Outward reinsurance premiums			(15,553)	(15,916)
Earned premiums, net of reinsurance			27,269	36,323
Investment income	4		73,897	80,076
Unrealised gains on investments	4		-	119,185
Other technical income, net of reinsurance	5		3,801	3,653
			<u>104,967</u>	<u>239,237</u>
CLAIMS INCURRED, NET OF REINSURANCE				
Claims paid				
- gross amount			(109,569)	(108,535)
- reinsurers' share			16,193	16,580
- net of reinsurance			<u>(93,376)</u>	<u>(91,955)</u>
Change in provision for claims				
- gross amount			(1,104)	74
- reinsurer's share			5	71
- net of reinsurance			<u>(1,099)</u>	<u>145</u>
Total claims incurred			<u>(94,475)</u>	<u>(91,810)</u>
CHANGE IN OTHER TECHNICAL PROVISIONS, NET OF REINSURANCE				
Long term business provision				
- gross amount	19		(74,513)	(37,601)
- reinsurers' share	19		2,032	1,412
- net of reinsurance			<u>(72,481)</u>	<u>(36,189)</u>
Technical provision for linked liabilities, gross and net of reinsurance	20		87,912	(85,637)
			<u>15,431</u>	<u>(121,826)</u>
Net operating expenses	7		(8,613)	(8,566)
Investment expenses and charges	8		(1,357)	(1,477)
Unrealised losses on investment	4		(35,629)	-
Other technical charges, net of reinsurance	5		(347)	(361)
Tax attributable to long term business	11		1,469	265
Actuarial losses on pension scheme	27		(1,197)	(1,847)
Transfer from/(to) the fund for future appropriations	12		19,751	(13,615)
			<u>(25,923)</u>	<u>(25,601)</u>
BALANCE ON THE LONG TERM BUSINESS TECHNICAL ACCOUNT			<u>-</u>	<u>-</u>

There are no recognised gains or losses other than those shown above
The notes on pages 27 to 72 form an integral part of these financial statements
All activities are continuing

BALANCE SHEETS

At 31 December 2011

	Notes	2011		2010	
Assets		Group £000	Society £000	Group £000	Society £000
INTANGIBLE ASSETS					
Goodwill	16	(273)	-	(312)	-
INVESTMENTS					
Land and Buildings	13	3,785	3,785	3,827	3,827
Investments in group undertakings	14	-	1,033	-	1,097
Other financial investments	15	968,724	968,231	906,745	906,230
		<u>972,509</u>	<u>973,049</u>	<u>910,572</u>	<u>911,154</u>
PRESENT VALUE OF ACQUIRED IN FORCE BUSINESS	16	<u>2,293</u>	<u>2,049</u>	<u>2,619</u>	<u>2,365</u>
ASSETS HELD TO COVER LINKED LIABILITIES	17	644,839	644,839	744,861	744,861
REINSURERS' SHARE OF TECHNICAL PROVISIONS					
Long term business provision	18	33,299	33,299	31,267	31,267
Claims outstanding	19	122	122	124	117
		<u>33,421</u>	<u>33,421</u>	<u>31,391</u>	<u>31,384</u>
DEBTORS					
Debtors arising out of direct insurance operations		297	297	365	365
Debtors arising out of reinsurance operations		257	257	214	214
Amounts owed by group undertakings		-	126	-	123
Other debtors		1,183	954	2,930	2,672
		<u>1,737</u>	<u>1,634</u>	<u>3,509</u>	<u>3,374</u>
OTHER ASSETS					
Tangible assets	22	330	330	508	508
Cash at bank and in hand		1,611	452	2,306	473
		<u>1,941</u>	<u>782</u>	<u>2,814</u>	<u>981</u>
PREPAYMENTS AND ACCRUED INCOME					
Accrued interest and rent		16,467	17,026	15,902	17,093
Deferred acquisition costs	23	313	313	391	391
Other prepayments and accrued income		167	167	201	201
		<u>16,947</u>	<u>17,506</u>	<u>16,494</u>	<u>17,685</u>
TOTAL ASSETS EXCLUDING PENSION SCHEME ASSET		<u>1,673,414</u>	<u>1,673,280</u>	<u>1,711,948</u>	<u>1,711,804</u>
DEFINED BENEFIT PENSION ASSET	27	<u>77</u>	<u>77</u>	<u>148</u>	<u>148</u>
TOTAL ASSETS INCLUDING PENSION SCHEME ASSET		<u>1,673,491</u>	<u>1,673,357</u>	<u>1,712,096</u>	<u>1,711,952</u>

BALANCE SHEETS

At 31 December 2011

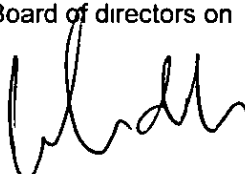
Liabilities	Notes	2011		2010	
		Group £000	Society £000	Group £000	Society £000
FUND FOR FUTURE APPROPRIATIONS	12	85,145	85,174	104,896	104,954
TECHNICAL PROVISIONS					
Long term business provision	18	906,634	906,634	833,210	833,210
Claims outstanding	19	13,842	13,729	12,401	12,267
		920,476	920,363	845,611	845,477
TECHNICAL PROVISIONS FOR LINKED LIABILITIES	20	644,839	644,839	744,861	744,861
PROVISIONS FOR OTHER RISKS AND CHARGES	25	242	242	810	810
DEPOSITS RECEIVED FROM REINSURERS		10,024	10,024	10,345	10,345
CREDITORS					
Creditors arising out of direct insurance operations		1,269	1,269	1,458	1,458
Creditors arising out of reinsurance operations		47	47	126	126
Amounts owed to group undertakings		-	15	-	50
Other creditors including taxation and social security	26	10,007	9,942	2,953	2,835
		11,323	11,273	4,537	4,469
ACCRUALS AND DEFERRED INCOME		1,442	1,442	1,036	1,036
TOTAL LIABILITIES		1,673,491	1,673,357	1,712,096	1,711,952

The notes to pages 27 to 72 form an integral part of these financial statements

The financial statements were approved by the Board of directors on 22 March 2012 and were signed on its behalf by



S Creodon
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 408 of the Companies Act 2006, no profit and loss account of the parent Society is presented.

Due to the immateriality of general insurance business in The Reliance Fire and Accident Insurance Corporation Limited, its results are included with 'other technical income' or 'other technical charges', as appropriate, of the long term business technical account.

The financial statements produced by subsidiaries for inclusion in the Group financial statements are prepared using accounting policies consistent with those adopted by the Group.

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 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. 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.

Reinsurance

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.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outwards reinsurance premiums' when due.

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 and other listed investments in fixed interest holdings is the bid price excluding accrued income. 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.

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 indicating 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 12 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 Chairman's statement on page 4 we will be approaching our members in 2012 asking them to endorse the way in which the Society is run, continuing the strategy that has been followed since 2000 but with a refinement to make the approach clearer in the future

The FSA fully supports the holding of this vote by members on our future strategy. To ensure fairness we have also appointed an independent actuary to review the process and will submit our approach to the Court for approval

Members have been initially approached outlining the approach to be taken and they will be sent a voting pack over the next few months asking them to approve the Society's approach

If the vote is not successful, the Board will have to consider how the Society might be managed in the best interest of members. For example, whether it is appropriate to propose a modified approach or whether a run off and distribution strategy should be followed

Although the Society has immaterial direct exposure to Euro currency risk (and none to Greek debt) any contagion from the Eurozone currency crisis to world markets would affect the Society

During 2011 the economic situation has deteriorated and, although there has been an improvement at the start of 2012, there continues to be significant uncertainty which is likely to continue. Our solvency position has weakened, like others in our sector, during the year, caused primarily by widening credit spreads and lower investment yields

There are a number of risks and uncertainties that could have a material impact on the Society and Group's future performance and level of capital. Our views of these principal risks and the impact of the current economic conditions are detailed in the Directors Report on page 7. The exposure of the Society and Group to changes in equity prices, credit default rates and interest rates are detailed in note 2. It should however be noted that each of these sensitivities is calculated independently of the others and that it is inappropriate to assume these are additive. The Board has carefully considered the impact of these uncertainties by reference to plausible economic scenarios (and taking account of the ongoing challenges within the Eurozone) and believes that after taking into account management actions which would be taken to mitigate the impact, adequate capital resources would be maintained

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 approve investment strategy, monitor the Group's investment management function and ensure group-wide compliance with the procedures set out in the Fund Management Procedures Manual and all legal and regulatory requirements

This encompasses

- 1) Approving the investment strategy
- 2) Monitoring the methodology and rationale behind all deals that are executed and asset allocation decisions that are taken
- 3) Reviewing all aspects of the Group's fund management procedures, e.g. dealing authorities, allocation policy, investment guidelines, investment related risk policies 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' measures 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 £60.9m (2010: £69.4m), financial investments would also decrease in value by £70.0m (2010: £70.2m) resulting in a decrease in the FFA of £9.1m (2010: decrease of £0.7m).

A decrease of 20% in interest rates would increase the value of the long term business provision by £69.5m (2010: £85.9), financial investments would also increase in value by £84.9m (2010: £88.7m) resulting in an increase in the FFA of £15.4m (2010: increase of £2.8m).

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 2011 or 2010

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 quarterly 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 increase the value of the long term business provision by £0.1m (2010 increase of £0.1m), financial investments would also increase in value by £3.9m (2010 £4.1m) resulting in an increase in the FFA of £3.8m (2010 £4.2m)

A decrease of 10% would increase the value of the long term business provision by £0.0m (2010 decrease of £0.2m) and decrease the values of financial assets by £3.9m (2010 £4.1m) resulting in a decrease in the FFA of £3.9m (2010 £4.3m)

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 quarter

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 programme.

The main material reinsurance contracts relate to smoker and enhanced 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 was reduced by splitting the reinsurance of smoker annuities between two providers from 1 January 2008. Enhanced Smoker Annuities written from April 2011 are reinsured by one provider only. 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.

	2011 £000	2010 £000
Non-linked assets subject to credit risk		
Sovereign Debt	214,356	232,856
AAA	37,389	28,394
AA	158,841	138,656
A	308,040	285,423
BBB and below or not rated	210,219	183,126
Total assets bearing credit risk	928,845	868,455
Derivatives financial instruments	17,509	9,133
Debt securities	841,394	789,252
Loans & Receivables	5,311	5,378
Assets arising from reinsurance contracts held	33,678	31,605
Deposits with credit institutions	30,953	33,087
Total assets bearing credit risk	928,845	868,455

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 2011 (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 £23.4m.

A decrease of 33% in credit default margins would decrease liabilities and increase the FFA by £22.7m.

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 £0.6m (2010: £0.9m), 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 policies when the backing assets are illiquid. The maximum exposure, were all contracts to surrender at the balance sheet date is £9.6m (2010: £10.3m).

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 2011					
Financial liabilities under non-profit investment contracts	425,694	228	-	-	425,922
Creditors	7,640	4,945	3,587	9,676	25,848
Financial liabilities at amortised cost	433,334	5,173	3,587	9,676	451,770
Financial liabilities under with profits investment contracts included in long term business provision	11,140	-	-	-	11,140
	444,474	5,173	3,587	9,676	462,910

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 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

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 2011

	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	57 4	16 2	-	73 6
- debt securities and other fixed income securities	209 2	632 2	-	841 4
- derivative financial investments	-	-	17 5	17 5
	266 6	648 4	17 5	932 5
Financial assets held to cover linked liabilities	374 4	248 1	-	622 5
	641 0	896 5	17 5	1555 0

In addition to the £622 5m of financial assets held to cover linked liabilities a further £22 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 2011

	Derivatives £m
Opening balance	9.1
Gains and losses recognised in the profit or loss	8.4
Closing balance	17.5
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	8.3

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

	2011 £000	2010 £000
Gross premiums written comprise		
Direct insurance	42,822	52,239
Gross direct premiums written in respect of insurance contracts and with profits investment contracts		
Periodic premiums	7,047	8,029
Single premiums	35,775	44,210
	42,822	52,239
Life insurance contracts	6,881	7,750
Pensions	35,861	44,403
Sickness and disability contracts	80	86
	42,822	52,239
Unit linked insurance contracts	5,300	6,034
Non linked contracts	37,522	46,205
	42,822	52,239
Geographical analysis		
United Kingdom	42,812	52,227
Germany	(4)	(7)
Finland	17	18
Italy	(3)	1
	42,822	52,239

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

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

	2011 £000	2010 £000
Unit linked investment contracts		
Life	157	132
Pensions	9,576	10,093
	9,733	10,225

There were no premiums on non linked investment contracts

b) New Business Figures

No material amounts of business were reinsured other than on a risk premium basis. No new inwards reinsurance was accepted. New business premiums for insurance contracts and investment with dpf contracts comprise

	2011 £000	2010 £000
Periodic premiums	54	89
Single premiums	35,775	44,211
	<u>35,829</u>	<u>44,300</u>
Life insurance contracts	474	488
Pension contracts	35,355	43,811
	<u>35,829</u>	<u>44,300</u>
Unit linked insurance contracts	66	46
Non linked contracts	35,763	44,254
	<u>35,829</u>	<u>44,300</u>
Geographical analysis		
United Kingdom	35,836	44,307
Germany	(4)	(8)
Italy	(3)	1
	<u>35,829</u>	<u>44,300</u>

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

	2011 £000	2010 £000
Unit linked investment contracts		
Pensions – single premiums	5,992	6,120
	<u>5,992</u>	<u>6,120</u>

c) Reinsurance Balance

The reinsurance balance amounted to a credit to the long term business technical account at 31 December 2011 of £2 729m (2010 credit of £2 490m)

4 Investment Return	2011	2010
	£000	£000
Investment income.		
Income from other financial investments		
- Loans and receivables interest income	110	131
Total interest income on financial assets not at fair value through profit or loss	110	131
Income from financial assets at fair value through profit or loss	63,886	65,865
	63,996	65,996
Income from land and buildings	245	515
Net return on pension scheme (note 27)	116	416
Net gains on the realisation of investments	9,540	13,149
	73,897	80,076
Investment expenses and charges:		
Investment management expenses	(1,358)	(1,477)
Total investment management expenses	(1,358)	(1,477)
Net unrealised (losses)/gains on investments	(35,629)	119,185
Total investment return	36,910	197,784
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	(34,616)	131,916
- Assets held for trading	8,527	418
Total net realised and unrealised (losses)/gains included in investment return	(26,089)	132,334
Interest (income)/expense for financial liabilities not at fair value through profit and loss comprises		
- Interest (income)/expense in respect of unit linked investment contracts	(47,301)	66,609
Interest in respect of financial liabilities at amortised cost	(47,301)	66,609
- Interest expense in respect of with profits investment contracts	1,610	615
Total interest (income)/expense for financial liabilities not at fair value through profit and loss	(45,691)	67,224

Interest (income)/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

	2011 £000	2010 £000
a) <u>Other technical income</u>		
Fee income from investment contracts	3,429	3,248
Reliance Unit Managers Limited	312	322
Reliance Administration Services Limited	60	83
	<u>3,801</u>	<u>3,653</u>
b) <u>Other technical charges</u>		
The Reliance Fire & Accident Insurance Corporation Limited	22	7
FS Management Limited	9	1
Amortisation of present value of acquired in-force business	316	353
	<u>347</u>	<u>361</u>

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 £9 487m (2010 £8 047m)

7 Net Operating Expenses

	2011 £000	2010 £000
Acquisition costs	2,335	2,311
Change in deferred acquisition costs	77	90
Administrative expenses	6,148	6,068
Reinsurance commissions	53	97
	<u>8,613</u>	<u>8,566</u>

Total commission for direct insurance accounted for by the Group during the year amounted to £0 938m (2010 £1 494m)

	2011 £000	2010 £000
Included within the administration expenses are		
Audit services:		
Fees payable to PricewaterhouseCoopers LLP for audit of the parent company's consolidated annual accounts	321	299
Over provision for previous year	(6)	(2)
Non-audit services:		
Fees payable to PricewaterhouseCoopers LLP and its associates for other services		
The audit of the company's subsidiaries, pursuant to legislation	43	41
Other services pursuant to legislation, including the audit of the regulatory return	59	57
Other services	42	-
	<u>459</u>	<u>395</u>
Fees payable to PricewaterhouseCoopers LLP in respect of Reliance Pension Scheme Audit	<u>7</u>	<u>8</u>
Depreciation of tangible assets	396	528
Operating lease rentals – land and buildings	130	176
Operating lease rentals receivable – land and buildings	(70)	-

In 2011 and 2010 the Society settled the audit fees for the whole Group, an allocation was then made to subsidiary companies

8. Investment Expenses and Charges

	2011 £000	2010 £000
Investment Expenses	<u>1,357</u>	<u>1,477</u>

9 Employee Information

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

	2011 No	2010 No
Management	7	7
Administration	69	71
	<u>76</u>	<u>78</u>
Staff costs for the above totalled	2011 £000	2010 £000
Wages and Salaries	3,400	3,186
Social Security costs	422	363
Other Pension costs		
- Defined Benefit (note 27)	159	2,060
- Defined Contribution	232	108
	<u>4,213</u>	<u>5,717</u>

10 Directors' Emoluments

	2011 £000	2010 £000
Total directors' emoluments	540	498
Highest paid director (included in above figures)	<u>342</u>	<u>296</u>

In the first half of 2010 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 (2010: £11,819). 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 £22,165 (2010: £10,132). See the Remuneration Report on page 17 for more detail on directors' emoluments.

11 Taxation

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

	2011 £000	2010 £000
UK Corporation Tax at 20% (2010 – 20%)	(1,003)	(795)
Adjustments in respect of prior periods	(46)	(112)
Total current tax	<u>(1,049)</u>	<u>(907)</u>
Deferred taxation		
within technical provision for linked liabilities	-	12
FRS17 deferred tax	(8)	(74)
other deferred taxation origination and reversal of timing differences (see note 24)	(421)	781
movement in discount	9	(77)
Total deferred tax	<u>(420)</u>	<u>642</u>
Tax credit on profit on ordinary activities	<u>(1 469)</u>	<u>(265)</u>

UK corporation tax in the technical account has been calculated at rates at 20% (2010 20%) in accordance with the rates applicable to the long-term business

12 Fund for Future Appropriations

	2011		2010	
	Group £000	Society £000	Group £000	Society £000
At 1 January	104,896	104,954	91,281	91,368
Transfer(to)/from profit and loss account	<u>(19,751)</u>	<u>(19,780)</u>	<u>13,615</u>	<u>13,586</u>
At 31 December	<u>85,145</u>	<u>85,174</u>	<u>104,896</u>	<u>104,954</u>

13 Land and Buildings – Group and Society

	2011 £000	2010 £000
Freehold	<u>3,785</u>	<u>3,827</u>

The cost of land and buildings was £5 172m (2010 £5 174m)

Land and buildings have detailed valuations carried out on a rolling program throughout the year. However all valuations were reviewed as at 31 December 2011.

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

Included within land and buildings is owner occupied property with a value of £2 45m (2010 £2 45m).

14 Investment in Group Undertakings - Shares

At the balance sheet date the Society held 100% of the issued share capital (and voting rights) 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 and voting rights

	2011		2010	
	Current Value £000	Cost £000	Current Value £000	Cost £000
The Reliance Fire & Accident Insurance Corporation Limited	336	1,000	357	1,000
Reliance Unit Managers Limited	412	50	422	50
Reliance Pension Scheme Trustee Limited	-	-	-	-
Reliance Administration Services Limited	210	100	233	100
FS Management Limited	75	50	85	50
	<u>1,033</u>	<u>1,200</u>	<u>1,097</u>	<u>1,200</u>

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

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) Group Balance Sheet

	2011		2010	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Financial assets at fair value through profit or loss				
Designated upon initial recognition	914,950	845,945	859,147	832,757
Derivative financial instruments – held for trading	17,509	6,318	9,133	6,441
	<u>932,459</u>	<u>852,263</u>	<u>868,280</u>	<u>839,198</u>
Loans and receivables at amortised cost				
	36,265	36,346	38,465	38,444
	<u>36,265</u>	<u>36,346</u>	<u>38,465</u>	<u>38,444</u>
Total financial assets	<u>968,724</u>	<u>888,609</u>	<u>906,745</u>	<u>877,642</u>

Included in balance sheet as follows

	2011		2010	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Shares and other variable yield securities and units in unit trusts	73,557	60,006	69,894	59,803
Debt securities and other fixed income securities	841,393	785,939	789,253	772,955
Loans secured by mortgages	284	284	298	298
Other loans	5,027	5,027	5,080	5,080
Deposits with credit institutions	30,954	31,035	33,087	33,065
Other - Derivative financial instruments	17,509	6,318	9,133	6,441
	<u>968,724</u>	<u>888,609</u>	<u>906,745</u>	<u>877,642</u>

b) Society Balance Sheet

	2011		2010	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Financial assets at fair value through profit or loss				
Designated upon initial recognition	914,475	845,473	858,662	832,292
Derivative financial instruments – held for trading	17,509	6,318	9,133	6,441
	<u>931,984</u>	<u>851,791</u>	<u>867,795</u>	<u>838,733</u>
Loans and receivables at amortised cost	<u>36,247</u>	<u>36,330</u>	<u>38,435</u>	<u>38,413</u>
Total financial assets	<u>968,231</u>	<u>888,121</u>	<u>906,230</u>	<u>877,146</u>

Included in balance sheet as follows

	2011		2010	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Shares and other variable yield securities and units in unit trusts	73,503	59,951	69,845	59,755
Debt securities and other fixed income securities	840,972	785,522	788,817	772,537
Loans secured by mortgages	284	284	298	298
Other loans	5,027	5,027	5,080	5,080
Deposits with credit institutions	30,936	31,019	33,057	33,035
Other - Derivative financial instruments	17,509	6,318	9,133	6,441
	<u>968,231</u>	<u>888,121</u>	<u>906,230</u>	<u>877,146</u>

c) Listed Investments

	2011		2010	
	Group £000	Society £000	Group £000	Society £000
Shares and other variable yield securities and units in unit trusts	73,557	73,503	69,894	69,845
Debt securities and other fixed income securities	841,393	840,972	789,253	788,817
	<u>914,950</u>	<u>914,475</u>	<u>859,147</u>	<u>858,662</u>

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 £1.5m (2010 £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 £17.5m (2010 £9.1m) that cost £6.3m (2010 £6.4m)

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 £8.5m (2010 gains of £0.4m).

g) Collateral

Included within the Group and Society's 'Deposits with credit institutions' is £7.3m (2010 £nil) in relation to collateral received from a counterparty in respect of the derivative contracts mentioned in (f) above. An offsetting liability is included in 'Other creditors'.

16 Goodwill and Present Value of Acquired in force Business

Group

	2011		2010	
	Goodwill	Present Value of Acquired Business	Goodwill	Present Value of Acquired Business
	£000	£000	£000	£000
<u>Cost</u>				
At 1 January	(585)	5,370	(585)	5,370
At 31 December	(585)	5,370	(585)	5,370
<u>Amortisation</u>				
At 1 January	273	(2,751)	234	(2,388)
Amortisation during year	39	(326)	39	(363)
At 31 December	312	(3,077)	273	(2,751)
Net book value at 31 December	(273)	2,293	(312)	2,619
Net book value at 1 January	(312)	2,619	(351)	2,982

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

	2011		2010	
	Goodwill	Present value of Acquired Business	Goodwill	Present Value of Acquired Business
	£000	£000	£000	£000
<u>Cost</u>				
At 1 January	-	4,920	-	4,920
At 31 December	-	4,920	-	4,920
<u>Amortisation</u>				
At 1 January	-	(2,555)	-	(2,202)
Amortisation during year	-	(316)	-	(353)
At 31 December	-	(2,871)	-	(2,555)
Net book value at 31 December	-	2,049	-	2,365
Net book value at 1 January	-	2,365	-	2,718

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

	2011		2010	
	Market Value	Cost	Market Value	Cost
	£000	£000	£000	£000
Assets held to cover linked liabilities	644,839	550,083	744,861	567,478

18 Long Term Business Provision

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

	2011 Group and Society £000	2010 Group and Society £000
Gross amount		
Mathematical reserves, before bonus	918,198	841,064
Cost of bonus added at year end	659	842
Zillmer adjustment	20	26
FRS26 adjustment – sterling reserves	(12,243)	(8,722)
Long term business provision	906,634	833,210
Reinsurance		
Mathematical reserves, before bonus	33,299	31,267
Long term business provision	33,299	31,267
Net amounts		
Mathematical reserves, before bonus	884,899	809,797
Cost of bonus added at year end	659	842
Zillmer adjustment	20	26
FRS26 adjustment – sterling reserves	(12,243)	(8,722)
Long term business provision	873,335	801,943

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.

The Society has not used the latest version of the CMI Mortality Projections Model. Internal investigation has demonstrated that the impact is immaterial.

Valuation basis

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

Interest Rates

Product group	Interest Rate 2011	Interest Rate 2010
Reliance Mutual With Profits Sub Fund		
With profits life assurances	1 02%	1 92%
Guaranteed income and growth bonds	3 40%	3 24%
Other without profits life assurances	1 77%	2 67%
Life fund annuities in payment	2 36%	3 49%
Pension deferred annuities and assurances	2 21%	3 34%
Pension annuities in payment	3 68%	4 37%
With Profits Sub Fund 4		
Deferred annuities - series 1 regular premium and series 2	1 68%	2 77%
Deferred annuities - series 1 single premium	1 24%	2 39%
Annuities in payment and deferred annuities after vesting	2 76%	3 78%
With Profits Sub Fund 5		
Life annuities in payment	2 46%	3 11%
Pension annuities in payment	3 07%	3 89%
With Profits Sub Fund 6		
Deferred annuities – with profits group 3	3 32%	4 11%
Deferred annuities – other with profits	2 06%	3 21%
Annuities in payment	3 34%	4 29%

Mortality tables

Product group	Mortality table 2011	Mortality table 2010
All ordinary branch assurances in all sub funds	A00	A00
All industrial branch assurances	ELT16	ELT16
Enhanced smoker annuities in payment	90% RGA base	n/a
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 2011		Mortality Improvements 2010	
	Male	Female	Male	Female
Enhanced smoker annuities in payment	100% RGA improvement	100% RGA improvement	n/a	n/a
Smoker annuities in payment	75% MC	75% MC	75% MC	75% MC
minimum	131.25%	10%	131.25%	10%
Non-smoker annuities in payment	75% MC	75% MC	75% MC	75% MC
minimum	131.25%	10%	131.25%	10%
Aggregate annuities in payment (RM WPSF)	100% MC	75% MC	100% MC	75% MC
minimum	175%	131.25%	175%	131.25%
Aggregate annuities in payment, and deferred annuities post-vesting (WPSF4)	100% MC	75% MC	100% MC	75% MC
minimum	175%	131.25%	175%	131.25%
Aggregate annuities in payment (WPSF5)	100% MC	75% MC	100% MC	75% MC
minimum	175%	131.25%	175%	131.25%
Aggregate annuities in payment (WPSF6)	100% MC	75% MC	100% MC	75% MC
minimum	175%	131.25%	175%	131.25%

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	2011 basis points	2010 basis points
Sovereign debt	Nil	Nil
AAA	73	48
AA	73	55
A	115	98
BBB	156	117
BB	495	356
B	n/a	n/a
CCC	n/a	748

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 £	
	2011	2010	2011	2010	2011	2010
Reliance Mutual With Profits Sub Fund						
OB life assurances except as specified below	36 00	32 00	12 60	11 20	118 50	95 00
Single premium unit linked investment bonds	-	-	27 00	24 00	118 50	95 00
Linked and non-linked guaranteed income bonds (annual rollovers)	-	-	36 00	32 00	11 85	9 50
Linked and non-linked guaranteed income bonds (3- and 5- yearly rollovers)	-	-	36 00	32 00	47 40	38 00
Linked and non-linked guaranteed growth bonds (annual rollovers)	-	-	18 00	16 00	11 85	9 50
Linked and non-linked guaranteed growth bonds (3- and 5- yearly rollovers)	-	-	36 00	16 00	47 40	38 00
All annuities in payment	-	-	31 50	28 50	-	-
All pension deferred annuities and assurances	36 00	32 00	12 60	11 20	325 88	261 25
All industrial branch business	18 00	16 00	0 36	0 32	17 78	14 25
With Profits Sub Fund 4						
Annuities in payment	-	-	37 87	37 47	-	-
Deferred annuities	37 87	37 47	13 26	13 11	469 65	464 62
Assurances	37 87	37 47	13 26	13 11	227 25	224 82
With Profits Sub Fund 5 – all policies, expressed as % SA	0 3%	0 3%	-	-	-	-
With Profits Sub Fund 6						
All life assurances	33 01	32 66	11 55	11 43	81 69	80 82
Annuities in payment	-	-	33 01	32 66	-	-
All pension deferred annuities	33 01	32 66	11 55	11 43	224 65	222 25

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 £32.8m (2010 £25.7m) 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 £655,000 (2010 £585,000) 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 £60,000 (2010 £72,000) 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 £60.9m.

A reduction of 10% in the expense assumptions for all contracts would reduce the long term business provision by £7.6m.

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 or, for enhanced smokers, an increase of the mortality improvement loading to 115%, would increase the group long-term business provision by £16.1m.

An increase of 33% in credit default margins would increase the long term business provision by £23.4m.

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 2011	822,885	10,325	833,210	12,401
Payments made to policyholders of, and fees deducted from, investment contracts	-	(1,090)	(1,090)	-
Movement for the year	74,005	509	74,514	1,441
Balance at 31 December 2011	896,890	9,744	906,634	13,842
Reinsurers' Share				
Balance at 1 January 2011	31,267	-	31,267	124
Movement for the year	2,032	-	2,032	(2)
Balance at 31 December 2011	33,299	-	33,299	122
Net technical provisions				
Balance at 31 December 2011	863,591	9,744	873,335	13,720
Balance at 1 January 2011	791,618	10,325	801,943	12,277

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 £000	Long Term Business Provision – Investment contracts £000	Total Long Term Business Provision £000	Claims Outstanding £000
b Society Balance Sheet				
Gross technical provisions				
Balance at 1 January 2011	822,885	10,325	833,210	12,267
Payments made to policyholders of, and fees deducted from, investment contracts	-	(1,089)	(1,089)	-
Movement for the year	74,005	508	74,514	1,462
Balance at 31 December 2011	896,890	9,744	906,634	13,729
Reinsurers' Share				
Balance at 1 January 2011	31,267	-	31,267	117
Movement for the year	2,032	-	2,032	5
Balance at 31 December 2010	33,299	-	33,299	122
Net technical provisions				
Balance at 31 December 2011	863,591	9,744	873,335	13,607
Balance at 1 January 2011	791,618	10,325	801,943	12,150

With profits investment contracts

Included within the long-term business provision are amounts of £11.1m (2010 £10.1m) 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.

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	
	2011	2010	2011	2010	2011	2010
	£000	£000	£000	£000	£000	£000
At 1 January	475,589	422,634	269,272	250,244	744,861	672,878
Deposits received from policyholders under investment contracts	9,733	10,225	-	-	9,733	10,225
Payments made to policyholders of, and fees deducted from, investment contracts	(21,843)	(23,879)	-	-	(21,843)	(23,879)
Change in technical provision as shown in the technical account	(47,301)	66,609	(40,611)	19,028	(87,912)	85,637
At 31 December	416,178	475,589	228,661	269,272	644,839	744,861

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 £416.2m for both the Group and Society, (2010 £475.6m) 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 except in relation to The Reliance Fire and Accident Insurance Corporation Limited which has not met its individual capital resource requirement for a number of years.

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

2011

	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	58,557	8,523	17,079	1,015	85,174	(29)	85,145
Adjustments on to regulated basis							
Positive valuation differences	-	-	-	-	-	-	-
Negative valuation differences	(12,223)	-	-	-	(12,223)	-	(12,223)
Inadmissible assets	(2,814)	-	-	-	(2,814)	29	(2,785)
Total available capital resource	43,520	8,523	17,079	1,015	70,137	-	70,137

The capital statement shows a decrease in available capital resources of £15.0m 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	11,407	16,673	117,854	84,946	230,880
With profits investment contracts	342	-	-	10,798	11,140
Non profit insurance contracts	562,823	19,042	39,676	30	621,571
Non profit investment contracts	9,744	-	-	-	9,744
	584,316	35,715	157,530	95,774	873,335
Unit linked insurance contracts	228,467	194	-	-	228,661
Unit linked investment contracts	416,178	-	-	-	416,178
Total technical liabilities net of reinsurance	1,228,961	35,909	157,530	95,774	1,518,174

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 reinsurance	1,271,430	36,657	152,379	86,338	1,546,804

c) Movement in capital resources

2011

The capital statements show a decrease in available capital resources of £15.0m 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

	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 2011	63,111	9,827	18,904	1,517	93,359
Expected change based on December 2010 assumptions	2,693	106	443	304	3,546
Valuation method and assumption					
Modelling methodology	(535)	198	(68)	(408)	(813)
Relating to benefit guarantees	164	-	1,803	86	2,053
Expense and inflation items	(6,392)	47	222	94	(6,029)
Credit default risk	6,655	47	915	606	8,223
	(108)	292	2,872	378	3,434
Non guaranteed bonuses paid	2,410	366	(543)	(558)	1,675
Investment items					
Equity and property movements	(1,461)	(844)	(2,195)	(80)	(4,580)
Interest rate changes	(17,467)	(1,326)	(2,907)	(1,704)	(23,404)
	(18,928)	(2,170)	(5,102)	(1,784)	(27,984)
Changes in provisions	(2,054)	563	-	(111)	(1,602)
Inter-fund transfers	(332)	-	-	332	-
Movement in inadmissible assets	(467)	-	-	-	(467)
Other items	(2,805)	(461)	505	937	(1,824)
	(5,658)	102	505	1,158	(3,893)
Available capital resource at 31 December 2011	43,520	8,523	17,079	1,015	70,137

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 except in WPSF4. 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

Changes in investment returns have been the primary factor for the reduction in the available capital resource over the year

At 31 December 2011 available capital represented 158% of the Group's total capital resource requirements (2010 228%)

2010

The increase in available capital resources of £14.4m during 2010 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 2010	61,639	7,582	9,496	200	78,917
Expected change based on December 2010 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.

22 Tangible Assets

Group and Society

	Computer Hardware and software £000	Office Equipment £000	Total £000
Cost			
Brought forward	875	89	964
Additions	208	10	218
Fully depreciated items written off	(455)	-	(455)
At 31 December 2011	628	99	727
Depreciation			
Brought forward	444	12	456
Charge for the year	349	47	396
Fully depreciated items written off	(455)	-	(455)
At 31 December 2011	338	59	397
Book value at 31 December 2011	290	40	330
Book value at 31 December 2010	431	77	508

23 Deferred Acquisition Costs

	2011		2010	
	Group £000	Society £000	Group £000	Society £000
On insurance contracts and with profits investment contracts	313	313	391	391

24 Deferred Taxation

	Group £000	Society £000
Deferred tax provision at 1 January 2011	(95)	(95)
Movement in undiscounted deferred tax asset/provision	421	421
Movement in discount	9	9
Deferred tax asset at 31 December 2011	335	335

Net deferred tax assets are included within "Other debtors"

Net deferred tax provisions are included within "Provisions for other risks and charges"

	Group		Society	
	2011 £000	2010 £000	2011 £000	2010 £000
Deferred tax (provision)/asset on				
Unrealised gains	-	(621)	-	(621)
Unrelieved expenses	400	611	400	611
Deferred acquisition costs	(47)	(59)	(47)	(59)
Other	-	(17)	-	(17)
Undiscounted deferred tax asset/(provision)	353	(86)	353	(86)
Discount	(18)	(9)	(18)	(9)
Discounted deferred tax asset/(provision)	335	(95)	335	(95)
Deferred tax liability on pension asset (note 27)	(11)	(19)	(11)	(19)
Asset/(provision) at end of year including deferred tax on pension asset	324	(114)	324	(114)

At 31 December 2011 deferred tax assets totalling £7.6m (2010 - £5.6m) 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. A new tax regime will be effective from 1 January 2013. Under the (draft) provisions of the new regime, these losses will be rendered irrelevant and therefore valueless.

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 2011 is £1.3m (2010 - £4.2m).

25 Provisions for Other Risks and Charges

Group and Society

	Deferred Tax £000	Compensation Provision £000	Dilapidations Provision £000	Onerous Leases £000	Total £000
Provision at 1 January 2011	95	93	344	278	810
Amount charged/(credited) to profit and loss account	(430)	-	(125)	10	(545)
Deferred tax moved to other debtors	335	-	-	-	335
Amounts utilised during the year	-	(93)	(219)	(46)	(358)
Provision at 31 December 2011	-	-	-	242	242

The provision for future expenses on onerous leases on former offices is stated after offsetting projected income from subletting some of the properties. Only two properties remain, one is sublet and the other is not. The longest lease to which the provision relates does not expire until 2015.

Part of the dilapidations provision brought forward related to the previous offices of the Society. Some of this provision was utilised during the year for repairs and professional costs, the rest was released. The remainder of the provision brought forward related to dilapidations received from a former tenant on a former office, this was utilised in 2011 for the repair of the property.

The compensation provision related to a claim from a policyholder which was upheld by the Financial Ombudsman Service in 2010. The claim was settled in 2011.

26 Other Creditors including taxation and social security

	2011		2010	
	Group £000	Society £000	Group £000	Society £000
Taxation and Social Security	1,920	1,859	1,649	1,554
Collateral held	7,300	7,300	-	-
Other creditors	787	783	1,305	1,281
	10,007	9,942	2,953	2,835

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 was treated as a curtailment in 2010 and the impact can be seen in the pension cost charged to the profit and loss account in that year.

Also in 2010, 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 in 2010

Defined Contribution Scheme

The contribution to the defined contribution scheme, which commenced on 1 July 2010, in the year amounted to £0.2m (2010: £0.1)

Defined Benefit Scheme

During the year ended 31 December 2011 the Society made contributions (including deficit funding) of £1.2m (2010: £2.8m). 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 2011 by qualified independent actuaries.

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

At 31 December	2011 %	2010 %
Rates of inflation		
• Retail Prices Index (RPI)	3.2	3.5
• Consumer Price Index (CPI)	2.2	3.0
Increases to pensionable salary	3.0	3.0
Increases to pension payment (non-GMP)	2.4	2.5
Discount rate	5.0	5.7

The mortality assumptions used were:

	2011 years	2010 years
Longevity at age 65 for current pensioners		
Men	22.5	22.3
Women	24.1	24.0
Longevity at age 65 for future pensioners		
Men	24.8	24.7
Women	25.9	25.8

2010 included the effect of moving to CPI (from RPI) to calculate deferred revaluations and increases to post 6 April 1988 GMP pensions in payment. This was reflected 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

	Fair Value	Expected long-term rate of return	Fair Value	Expected long-term rate of return
At 31 December	2011 £000	2011 %	2010 £000	2010 %
Market value of scheme assets				
Equities	5,532	7.20	6,258	8.25
UK Government fixed interest securities	9,399	3.20	5,525	4.25
Corporate bonds (inc overseas bonds)	3,122	4.90	5,936	5.60
Other	1,753	2.00	1,890	2.00
Total market value of scheme assets	19,806		19,609	
Present value of scheme liabilities	17,407		17,942	
Surplus in the scheme	2,399		1,667	
Restriction of surplus	(2,311)		(1,500)	
Limited surplus	88		167	
Related deferred tax	(11)		(19)	
Net pension scheme asset	77		148	

Reconciliation of present value of scheme liabilities

	2011 £000	2010 £000
At 1 January	17,942	36,682
Current service cost	159	596
Interest cost	956	2,119
Actuarial gain on liabilities due to experience	(389)	(128)
Actuarial loss on liabilities due to assumption changes	1,245	456
Benefits paid	(2,506)	(891)
Past service cost	-	(1,911)
Curtailments	-	(2,263)
Settlements (reduction in liability)	-	(16,718)
At 31 December	17,407	17,942

Post service costs in 2010 relate to the removal of the practice of granting discretionary pension increases on pre 6 April 1997 non-GMP pension during that year

Reconciliation of fair value of scheme assets

	2011 £000	2010 £000
At 1 January	19,609	37,565
Expected return on scheme assets	1,072	2,535
Actuarial gain/(loss) on assets	470	(19)
Contributions paid by the employer	1,161	2,775
Contributions paid by the members to AVC schemes	-	48
Benefits paid	(2,506)	(891)
Settlements (annuity cost)	-	(22,404)
At 31 December	19,806	19,609

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 £1 542m (2010 gain £2 516m)

Analysis of amounts charged to profit and loss account

	2011 £000	2010 £000
Investment income		
Expected return on pension scheme assets	1,072	2,535
Interest cost of pension scheme liabilities	(956)	(2,119)
Included in Investment Income	116	416
Pension cost		
Current service cost	159	548
Past service costs	-	(1,911)
Gains in curtailments	-	(2,263)
Losses on settlements	-	(5,686)
Included in net operating expenses	159	2,060

Analysis of actuarial pension scheme loss after tax

	2011 £000	2010 £000
Actual return less expected return on pension scheme assets	470	(19)
Experience gains and losses arising on scheme liabilities	389	128
Effect of changes in demographic and financial assumptions	(1,245)	(456)
Restriction of surplus	(811)	(1,500)
Actuarial loss recognised	(1,197)	(1,847)
Deferred tax thereon	143	213
Pension scheme loss after tax	(1,054)	(1,634)

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 £4 6m (2010 loss of £3 6m)

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

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Present value of scheme liabilities	(17,407)	(17,942)	(36,682)	(31,031)	(35,695)
Fair value of assets	19,806	19,609	37,565	32,832	39,245
Surplus	2,399	1,667	883	1,801	3,550
Restriction of surplus	(2,311)	(1,500)	-	-	-
Deferred tax	88 (11)	167 (19)	883 (93)	1,801 (189)	3,550 (372)
Net surplus	77	148	790	1,612	3,178
Experience gain/(loss) on liabilities	389	128	1,107	345	(3)
Experience gain/(loss) on assets	470	(19)	4,086	(8,376)	(397)

28 Contingent Liabilities

There are no contingent liabilities (2010 no contingent liabilities)

29. Operating Lease Commitments

The Society has operating lease commitments in respect of two former branch offices, a storage facility and its disaster recovery site. The commitment during the year following the year of these accounts under non-cancellable leases is as follows

	2011 £000	2010 £000
Land and buildings		
Expiring in less than 1 year	-	61
Expiring between 2 to 5 years	115	109
Expiring thereafter	10	10

One of the two former branch offices is sublet at the same cost as 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

		2011		2010	
		No of Units 000	Unit Value £000	No of Units 000	Unit Value £000
a	<u>Group holdings</u>				
	Units purchased	34	159	24	107
	Units sold	47	221	43	200
	Holding at 31 December	69,082	313,631	69,094	351,550
b	<u>Society holdings</u>				
	Units purchased	32	147	24	107
	Units sold	47	221	43	200
	Holding at 31 December	69,069	313,573	69,084	351,499

In addition the Reliance Pension Scheme invested in The British Life Unit Trust 815,500 units were held throughout the year The value of the holding at 31 December 2011 was £3,702,370 (2010 – £4,149,264)

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 £27,000 (2010 £24,000)

As at the balance sheet date the balance due to the Society from the Reliance Fire and Accident Insurance Corporation Limited was £9,000 (2010 £13,000)