RELIANCE MUTUAL INSURANCE SOCIETY LIMITED

ANNUAL REPORT AND AUDITED GROUP FINANCIAL STATEMENTS 2012

Registered in England No: 491680

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Directors

S Creedon FIA, CERA, 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	
C K Mills FFA	Appointed 28/09/2012
C J Lerpiniere BSc ACII	Appointed 28/09/2012

Senior Management

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

Auditors

PricewaterhouseCoopers LLP
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

The directors of the company who were in office during the year and up to the date of signing the financial statements were

S CREEDON FIA, CERA, MAAA, FSAI (Age 61) — Chairman
(Appointed 11/03/2008, Chairman 01/06/2008) — Non-executive Director

Seamus is a qualified actuary He is a 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 a member of the insurance and reinsurance stakeholder group of the European Insurance and Occupational Pensions Authority He is also a non-executive director of Baillie Gifford Life, MetLife and (in Ireland) RGA International Reinsurance and VHI Healthcare

W AU MSc FCMA (Age 56) — Chairperson of the Audit & Risk Committee
(Appointed 28/10/2010) — Non-executive Director

Wai currently has a portfolio of senior advisory roles including Accenture Financial Services UK and China Construction Bank UK Wai is a non-executive director of Prudential Assurance and QBE and a director of The City UK Prior to these roles, she was Chief Executive of corporate pensions provider Tactica Insurance and before that held several senior executive posts at Barclays – culminating as Director of Global Servicing Wai has held the role of UK Finance Director (Life and General) for Royal & Sun Alliance and also UK Finance and Actuarial Director of Hill Samuel Investment Services Group

M GOODALE BA FIA (Age 57) — Chief Executive
(Appointed 01/07/2006) — Executive Director

Mark 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 Chairman of the Association of Financial Mutuals having served on that Board for over five years

C LERPINIERE BSc ACII (Age 54)
(Appointed 28/09/2012) — Executive Director

Chris is a Chartered Insurer He joined the Society in April 2008 and, as Head of Operations, he is responsible for the service our clients receive and also for our information technology Prior to joining Reliance Mutual, he held senior management positions at Fidelity and GAN Life and Pensions

Chris was appointed as a director in September, because the board had concluded that governance and organisation resilience would be enhanced by making additional executive appointments

C MILLS FFA (Age 49)
(Appointed 28/09/2012) — Executive Director

Cameron joined the Society in September 2009 As Chief Actuary he is responsible for all the Society's actuarial functions Prior to Reliance Mutual, he was Interim Chief Actuary at Baroda L&G Life Insurance Co Ltd supporting Legal & General in their joint start-up in Mumbai He has also served three years at Resolution Life and 21 years at Standard Life Cameron was appointed as a director in September, because the board had concluded that governance and organisation resilience would be enhanced by making additional executive appointments

R P J RANDALL BSc FIA (Age 63)
(Appointed 01/07/2004)

Senior Independent Director
Non-executive Director

Jim Randall is a qualified actuary who spent 25 years in the life and health reinsurance industry with Munich Re, Liberty Re and General Re He is Chairman of the tele-underwriting company MorganAsh

F B SANJANA MA FCII (Age 57)
(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 also a non-executive director of Police Mutual and is the Chair of their Investment Committee

N A SHERRY ACII (Age 55)
(Appointed 24/03/2010)

Chairman of the Fair Member Benefits Committee
Non-executive Director

Nigel has almost 35 years' experience in the financial services industry He held senior positions at Pearl Assurance, NPI, Prudential UK and most recently as Chief Operating Officer and acting Chief Executive of MGM Assurance In addition to being a non-executive director, Nigel undertakes short-term interim management assignments in the Financial Services sector

CHAIRMAN'S STATEMENT

2012 was a momentous year for the Society with the overwhelming endorsement by members of the Creditors Scheme of Arrangement

The Scheme clarifies how the Society is run and the future entitlements of policyholders, particularly those with profits policyholders that prior to the Scheme effective date were in the Reliance Mutual With Profits Sub Fund

The Scheme provides us with a firm and certain base from which to continue our successful strategy of writing new non-profit business and acquiring blocks of business from other insurers

Investment Markets

Domestic gilts remained solid over the year, as the continuing Eurozone crisis allowed the UK to retain its perceived 'safe haven' status for bond investors However, towards the year end there was a growing expectation of a flow of cash from bonds into equities Quantitative easing in major economies sustained a lower interest rate level than long-term investors might wish to see

Mixed economic data on both sides of the Atlantic added to equity market volatility, though by the end of the period a clear picture was emerging of low growth/no growth in the UK and Europe, contrasting with a recovery emerging in the US, based in part on shale oil and gas China began stimulating its economy and this seems likely to continue following the change of leadership, however mining stocks did not make a sustained rally until new year 2013 Overseas markets saw a rebound in the Japanese and Pacific regions, after the large falls of 2011, whilst North America continued to make steady progress Sterling strengthened against major foreign currencies during the year, and this presented a headwind for the performance of our overseas holdings which, nevertheless, showed good returns

New business

New business volumes of the enhanced smoker annuity were very strong in 2012, with sales 90% above those in 2011

Member Bonuses

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 24)

Generally bonus rates set in early 2012 had increased year on year, with reductions in the rates awarded to With Profits Sub Fund 2 (former Criterion Life Assurance policies) and Reliance Mutual With Profit Sub Fund

As set out in the Principles and Practices of Financial Management (PPFMs) a six monthly review was carried out for With Profit Sub Fund 5 (former University Life policies), this resulted in further bonus rate increases in this fund

With-profits and mutual governance

The FSA issued a Policy Statement in March 2012 concerning protecting with profits policyholders via with profits governance The apparently pragmatic approach to achieving efficient strong governance is welcomed by the Society and is 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

The FSA issued a further consultative paper on mutuality and with profits in December 2012 The paper deals mainly with the concern of many with profits mutual that, under current regulations, they could be prevented from writing new non-profit business potentially leading to a further reduction in the size of the mutual sector

The main aspects of the proposals deal with identifying the part of a fund which relates to with profits policyholders and the part that could be used for supporting business plans Obviously the Scheme of Arrangement undertaken by the Society in 2012 has already implemented this split therefore the major part of this paper is not relevant to the Society The Society has submitted a response to the FSA on this paper

Mutuality – we're in this together

I would like to take this opportunity to congratulate your Chief Executive, Mark Goodale, on his recent appointment as Chairman of the Association of Financial Mutuals Upon his appointment, Mark explained his view that "the media spotlight has regularly focused on the failings of some of our largest financial PLCs and there is a growing consensus that big business needs to operate more transparently and responsibly to rebuild consumer trust During this time, mutuals have quietly continued to work closely with their customers to provide a better experience of financial services This is an important time for financial mutuals that look after the needs of 20 million people and offer a real alternative to the PLCs With the support of government and with appropriate regulation, the financial mutual sector can do so much to restore public confidence in our industry"

As a mutual, Reliance has no shareholders to pay dividends to, and so is free to concentrate entirely on delivering products and services that best meet the needs of its customers We believe the regulatory framework would usefully recognise the substantial identity of interest between mutual societies and their members

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 2012, 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 I am pleased to welcome executive directors Chris Lerpiniere and Cameron Mills to share in the work of the board

Last year we asked you to vote on the way the Society is run This year, to improve the accountability of the Board to its members, we have adopted best practice so that each director is expected to stand for re-election To continue this approach of providing a strong say in how we do things, we are keeping a close eye on how the government brings about binding votes on directors' pay for listed companies Even though the legislation is not expected to apply to mutuals, our intention is voluntarily to abide by the approach expected to be set out in the legislation so far as is practicable – so that you have the opportunity to see and have comfort in our approach to boardroom pay I will let you know more as developments occur

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 has suffered numerous delays in developing key elements Currently there is no definitive date for implementation but latest indicators point to 2016 at the earliest The Society has already implemented many of the governance aspects of the Solvency II requirements resulting in a stronger infrastructure and control environment However, as a result of the continued delays in the implementation date the decision has been made to cease work for the time being on the reporting aspects of the project

Retail Distribution Review

The Society successfully implemented the new requirements arising from this regulatory review at the end of 2012

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 implemented the necessary changes by the required date As a result we now offer the same annuity rates to males and females

The Future

Following the overwhelming support for last year's vote on the way the Society is run, the next leg of our journey - to develop a longer term strategy for bringing in new members - is underway We also seek distribution partnerships with organisations sharing our values, where we supply the life insurance product A five-year strategy is being developed with the aim of growing our membership through trust in our life insurance products and services We are in the process of assessing what insurance products customers need - and can relate to - and I hope to be able to share more about progress at the AGM

In the meantime, we will continue to offer our enhanced annuity and seek selective acquisitions of blocks of business to enhance the scale of the organisation

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
28 March 2013

REPORT OF THE DIRECTORS

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2012 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 27, show a transfer to the fund for future appropriations of £10 7m (2011 transfer from the fund of £19 8m) The total assets of the Group are £1,775 0m (2011 £1,673 5m)

The results of the Group in the year reflect various factors Falling interest rates, narrowing credit spreads, moderate increases in equity markets and a strengthening of our longevity assumptions have led to an increase in technical provisions

The total assets of the Group increased to £1,775 0m with the primary factors being the increase in the value of unit linked and non linked investments and the impact of the new reinsurance agreement on technical provision

The Group has established the groundwork of a five year strategy to grow its membership Work has started assessing what insurance products customers need and can relate to

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 oversight 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

The endorsement of the Creditor Scheme of Arrangement referred to in the Chairman's Statement on page 5 has ratified the strategy of the Society and clarified the capital available for the main groups of policies and members

The Society is now looking to expand further by bringing in new members A five year strategy is being developed with the aim of growing our membership through new life insurance products We will also seek growth through continued sales of our successful enhanced smoker annuity, selective acquisitions of blocks of business and distribution partnerships This will add further to the scale of the organisation for the long term benefit of policyholders

Key Performance Indicators ("KPIs")

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

	2012	2011	
New Business (APE)	£6 2m	£4 3m	Annual Premium Equivalent (APE) is new regular premiums plus 10% of single premiums (including amounts in respect of investment contracts)
Total Assets	£1,775 0m	£1,673 5m	
Increase/(decrease) in fund for future appropriations	£10 7m	(£19 8m)	See note 12 to the financial statements for further details
Fund for future appropriations	£95 8m	£85 1m	
Regulatory solvency ratio	180%	158%	
Number of Employees (FTE)	83 5	71 5	Full Time Equivalent (FTE) counts full time staff as 1 FTE and part time as 0 5 FTE

The Board has reviewed the KPIs above and compared them to the business plan and is pleased to report the improvement in the year 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 2012 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 24

Directors

The directors listed on page 2 held office throughout the year, unless otherwise stated To improve the accountability of the Board to its members, the Society has adopted best practice so that each director stand for re-election annually commencing with the Society's Annual General Meeting beginning in 2013 All directors except one of the newly appointed executive 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 two 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
28|3|2013

CORPORATE GOVERNANCE

Compliance with the Code

A version of The Combined Code on Corporate Governance was first 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 ('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

The Code attempts to promote better board behaviour by refocusing attention on 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 and group 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 approves significant changes to investment strategy 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 the information 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 (PPFM), and Individual Capital Adequacy Standards (ICAS), 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 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 the systems used to identify, mitigate and monitor risks

During the year the Board comprised the Chairman, three executive directors and four non-executive directors The Code requires a strong presence on the Board of both executive and non-executive directors In recent years the Chief Executive has been the only executive director, however, while members of management are still required to attend meetings to provide information concerning key areas of the Group's operations, following external evaluation conducted by Mazars LLP, the Board concluded in 2012 that governance and organisation resilience would be enhanced by making additional executive appointments Details of each director are shown on page pages 3 and 4 The Board considers that each of its non-executive directors is independent in character and judgement 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

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 2012 there was one additional meeting 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 2012 was as follows

	Board		Investment Committee		Nomination and Remuneration Committee		Audit and Risk Committee		Fair Member Benefits Committee	
Director	Meetings to attend	Meetings attended	Meetings to attend	Meetings attended	Meetings to attend	Meetings attended	Meetings to attend	Meetings attended	Meetings to attend	Meetings attended
S Creedon	9	9	-	-	3	3	-	-	1	1
M Goodale	9	9	8	8	3	3	-	-	5	5
W Au	9	9	-	-	3	3	4	4	1	1
RPJ Randall	9	9	-	-	3	3	4	4	5	5
F B Sanjana	9	9	8	8	3	3	4	4	5	5
N A Sherry	9	9	-	-	3	3	4	4	5	5
C J Lerpiniere	1	1	-	-	-	-	-	-	-	-
C K Mills	1	1	-	-	-	-	-	-	-	-

Directors have full access to the services of the company secretary and may take independent professional advice at the Group's expense if they judge it necessary to discharge their responsibilities as directors

The division of responsibilities between the Chairman and the Chief Executive is set out in writing 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

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 for non-executive directors 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 is available on request and on the Group's website There are plans for all directors voluntarily to 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 2012, 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 2012 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 The mission statement is to grow membership through trust in our life insurance products and services Guiding principles to help in the achievement of these aims are that

- Unit costs do not grow in real terms,
- Diseconomies of scale are avoided by ensuring policies added exceed policies going off,
- The solvency margin is appropriate,
- Excess surplus is distributed to with profit policyholders in accordance with the Scheme of Arrangement approved by policyholders on 31 May 2012,
- Business developments are funded by the Ordinary Sub Fund (OSF) in accordance with the Scheme of Arrangement, and
- Most of the profits from OSF are re-invested into the business, but if sufficient surplus builds up, this may be distributed to all policyholders

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 through new distribution channels

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 2012 related to preparations for the sale of one of the group's subsidiaries 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
During the period, this committee comprised the full Board (with the exception of the executive directors appointed in 2012) and was 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 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

Details regarding directors' pay can be found in the Remuneration Report on page 18

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 2012 was the fourth year that a resolution was put to the AGM to provide members with an opportunity for an advisory vote regarding the Remuneration Report The result of the fourth vote echoed previous votes, with over 90% voting in favour of the report

To further the Board's approach to providing members with a strong say on the running of their Society, a close eye is being kept on how the government brings about binding votes on directors' pay for listed companies and, even though the legislation is not expected to apply to mutuals, the Board's current intention is voluntarily to abide by the approach expected to be set out in the legislation so far as is practicable As part of this development, in February 2013, the Board decided to separate the Nomination and Remuneration Committees and limit membership of the Remuneration Committee to the non-executive directors and the Chairman of the Society New Terms of Reference, consistent with the Code, will be made available on the Society's website

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 Six directors hold one of the Society's policies as required by the Articles of Association in force at the time they were appointed In a similar vein, one of the executive directors appointed in 2012 holds a policy to align his rights and interests with the membership These policies do not have any different voting rights or controlling effects than those of members holding similar policies

The Board believes that having a diverse workforce is vital to the success of the business The same principle is applied to the composition of the Board, which strives to cultivate the value that is brought to debate and decision-making by directors with diverse backgrounds, experience, expertise and outlook

The principle is to make Board appointments based on merit and overall suitability for the role Subject to this principle, and to the availability of appropriate candidates, the aim is to increase the percentage of female representation on the Board, considering the recommendations of the Davies Review, and in the context of the relatively small size of the Board and the tenure of the existing directors

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 (incorporating the With Profits 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

The responsibilities of the Committee are to exercise independent judgement in making recommendations to the Board on

- Decisions made on the management of the Society's estate while balancing any competing or conflicting rights and interests of all customers,
- Regular reports received regarding the financial performance of the Society and the resulting impact on long-term prospects, and
- The Society's compliance with the terms of its PPFM

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 2012, 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

Member relations activity in 2012 was very much focused on the Scheme vote to clarify how Reliance Mutual is run and the future entitlements of policyholders Letters to the membership to inform them about the process and seek feedback were sent out in February and then the voting pack had been issued in April Letters that were sent out in November announced that the Scheme of Arrangement was overwhelmingly approved at the Scheme Meetings on 31 May and sanctioned by the High Court on 28 June Throughout the process the member relations team were on hand to help the communication process

As a result of the activity on the Scheme vote, the 2012 AGM was held in July in Tunbridge Wells This may well have been the reason for the lower attendance at the meeting 19 members attended and their contribution to the day, including discussions with directors, management, staff and fellow members - both before and after the meeting - was greatly appreciated To rebuild attendance, the Board plans to revert to holding the meeting in May at the Charing Cross Hotel in Central London - a more accessible venue for a membership that is spread nationwide

In order to help engagement with members online voting was available for the first time for the 2012 AGM 8,832 members took the opportunity of voting by proxy, 11% of those eligible to receive the notice of the meeting – an increase of 10% over the previous year Of those 8,832, 779 took advantage of the new online voting facility

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

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@reliancemutual 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 2011 and 2012

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 2012 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, even though implementation has been delayed, and are proceeding on the basis that Solvency II capital requirements can be accommodated by management of the Balance Sheet

REMUNERATION REPORT

In 2012 the whole Board, with the exception of the executive directors appointed in that year, acted as the remuneration committee From March 2013, the terms of reference of the committee and its constituents were amended so that it now comprises of the non-executive directors only with the senior Independent Director as the chairman The committee will determine the remuneration of the Chairman, Chief Executive and Executive Directors From March 2013, the remuneration of non-Executive Directors shall be a matter for the Chairman and the executive members of the Board Remuneration packages do not include any long-term incentive schemes Appointments are not for a fixed term and from 2013 all members of the Board will stand for reappointment at each AGM None of the Executive Directors have notice periods in excess of 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 and Executive Directors pay In addition a performance related bonus scheme is in place for Executive Directors, which is payable once a year based on the achievement of objectives set at the beginning of the year

Mr Goodale serves as Chairman of the Association of Financial Mutuals He receives no remuneration for this service

Directors' Emoluments

		Salary/ Fees £	Benefits £	Total y/e 31.12 2012 £	Total y/e 31.12.2011 £
S Creedon	Chairman	65,002	-	65,002	61,001
M Goodale	Chief Executive	302,348	46,753	349,101	342,215
W Au		37,502	-	37,502	35,501
R P J Randall		32,501	-	32,501	30,500
F B Sanjana		42,500	-	42,500	40,502
N A Sherry		35,835	-	35,835	30,500
C K Mills	Appointed 28 September 2012	41,034	3,776	44,810	-
C J Lerpiniere	Appointed 28 September 2012	28,355	2,608	30,963	-
		585,077	53,137	638,214	540,219

M Goodale's salary of £302,348 (2011 £299,192) included a bonus of £73,646 (2011 £77,540)

Directors' Pension Information

This relates to M Goodale, C Mills and C Lerpiniere Non-Executive directors do not receive pension benefits

	2012 £	2011 £
M Goodale		
Defined benefit scheme		
- Accrued annual pension at end of year	11,819	11,819
- Transfer value at end of year	223,650	232,835
Defined contribution scheme		
- Society contribution	22,870	22,165
C Mills		
Defined contribution scheme		
- Society contribution	3,868	-
C Lerpiniere		
Defined benefit scheme		
- Accrued annual pension at end of year	3,315	-
- Transfer value at end of year	58,992	-
Defined contribution scheme		
- Society contribution	2,835	-

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 2012

Background

The Society maintains a set of Principles and Practices of Financial Management (the PPFM) that sets out the way in which 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.reliancemutual co uk/pdfs/PPFM-010812 pdf

As a result of various acquisitions between 2004 and 2007, the Society's business was divided across 6 sub-funds

- The Reliance Mutual With Profits Sub-fund ("RM WPSF"), and
- With Profits Sub-Funds No 2, 3, 4, 5 and 6 ("WPSF2, 3, 4, 5 and 6")

Reliance Mutual With Profits Sub Fund (RM WPSF) contained 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

Following the Scheme of Arrangement (the Scheme) that was approved by the High Court in 2012, the assets and liabilities were divided between two newly created sub-funds from 1st August 2012, With Profits Sub-Fund No 1 ("WPSF1") and the Ordinary Sub-Fund ("OSF"), on the following basis

- The with profits policies of RM WPSF, and all the assets and liabilities associated with them were allocated to WPSF1

- The non-profit policies of RM WPSF and all the assets and liabilities associated with them, were allocated to OSF 60% of the future surplus (or deficit) arising each year on this non-profit business will be transferred to WPSF1 or vice versa in the case of a deficit arising

- The realistic surplus in RM WPSF, defined as the excess assets above the fund's liabilities was allocated to WPSF1 and OSF respectively in the following proportions 51 25% and 48 75%

- Mechanisms were set up to enable WPSF1-6 and OSF to provide capital support between the individual sub-funds in the event that such support is required

WPSF1 to 6 are closed to new business

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 2012 the funds were managed in accordance with the PPFM with the exception of two areas

Neither a review of the swaptions portfolio as required under 3 27 of the PPFM nor a review of the various surrender value bases were completed by the end of 2012 These will be completed in 2013 If any policyholders are found to have been treated unfairly as a result of the reviews, appropriate compensation will be paid

It is the Directors' opinion that the exercise of discretion during 2012

- 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 The Committee comprises of three non-executive directors and the chief executive and meetings are held with the With Profits Actuary and the Actuarial Function Holder in attendance The Terms of Reference of the Fair Member Benefits Committee can be found on the web-site at http //www reliancemutual co uk/pdfs/FMBC-Terms-of-Reference-May-12final pdf or are available directly from the Society.

The With Profits Actuary, Geoff Ross, has a statutory duty to advise the Board when it exercises its discretion in the management of the with profits funds 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 2012 may be regarded as having taken the reasonable expectations of the with profits policyholders into account

Exercise of Discretion

Regular Bonuses
In February 2012, the Board declared new reversionary bonus rates, for those policies where regular bonuses may be added, to take effect from 1st January 2012 Reversionary bonus rates were unchanged from the previous declaration in February 2011 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 2012 new final bonus scales which took effect from 1st March 2012 were declared based on the financial results at the end of 2011

- 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 2012 from the 620% set in September 2010 Final bonuses were reduced to take account of weak performance during 2011
- For WPSF2, final bonus rates were reduced from the last change in September 2011
- For WPSF3 it was possible to increase final bonus rates
- In WPSF4 there was no overall change to the level of payouts as a result of the bonus declaration
- 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 2012, final bonus rates were increased
- The financial health of WPSF6 has continued to improve, and so 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 This proved unnecessary during 2012 In addition, final bonus rates in WPSF3 and WPSF5 are reviewed every six months to help manage the volatility of these small funds As a result of the mid-year review, final bonus rates in WPSF3 remained unchanged whereas final bonus rates in WPSF5 were increased

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 2012, the investment strategies for sub-funds WPSF2 to 6 were reviewed in line with the PPFM The Scheme stated how the assets of RM WPSF would be split between WPSF1 and OSF Following the implementation of the Scheme the assets were then reviewed and changes made to align the investment strategy with that outlined in the revised PPFM WPSF1 has now adopted an approach where the assets are increasingly invested in less volatile assets for policies close to maturity

Wind-Up of Funds WPSF3 and WPSF5

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 until the Scheme of Arrangement had been completed This meant that WPSF3 remained as a separate fund during 2012 The Society has declared its intention to wind-up WPSF3 during 2013

The original Scheme of Transfer which established WPSF5 set a threshold of £5m of with profits liabilities below which the fund could be wound up The Scheme rebased this level to £10m and as a result WPSF5 has fallen below this revised threshold The Society has declared its intention to wind-up WPSF5 during 2013

Changes to the PPFM

The Scheme required a new PPFM to be produced to take account of the splitting of RM WPSF into WPSF1 and OSF The new PPFM remained broadly unchanged for WPSF2 to WPSF6 apart from reflecting the revised capital support mechanisms established by the Scheme Although many of the Practices which applied to RM WPSF were carried over to WPSF1, additional Practices were required to reflect the operation of this new fund

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 2012

It is my opinion that

- the report is a fair statement of how the with profits business has been managed during the year
- the Society has exercised its discretion in a reasonable and proportionate manner over the period with the exception that the Society is not at the date of these accounts able to confirm whether amounts paid on surrender during 2012 in a small number of cases were fair
- 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 2012

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 2012 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 2012

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

With Profits Sub Fund 1

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 2011, other than premiums that cover special risks, are available as a cash benefit (for life policies only) or may be converted to a reversionary bonus using an appropriate actuarial conversion factor Non-premium paying life assurance policies use a notional equivalent premium in a similar calculation

With Profits Sub Fund 3

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

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

With Profits Sub Fund 4

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

Regular premium deferred annuities (series 1)	1 00
Single premium deferred annuities (series 1)	1 25
Deferred annuities (series 2)	1 00
Annuities in payment	3 00

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

We have audited the Group and Parent company financial statements (the "financial statements") of Reliance Mutual Insurance Society Ltd for the year ended 31 December 2012 which comprise the Consolidated 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 pages 10 and 11, 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 2012 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 2012 and of the group's and parent company's profit 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 returns adequate for our audit have not been received from branches not visited by us, 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
28 March 2013

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2012

Technical Account – Long Term Business		Notes	2012 £000	2011 £000
TECHNICAL INCOME				
Gross premiums written		3	60,746	42,822
Outward reinsurance premiums			(15,425)	(15,553)
Earned premiums, net of reinsurance			45,321	27,269
Investment income		4	91,990	73,897
Unrealised gains on investments		4	68,389	-
Other technical income, net of reinsurance		5	3,768	3,801
			209,468	104,967
CLAIMS INCURRED, NET OF REINSURANCE				
Claims paid	- gross amount		(119,072)	(109,569)
	- reinsurers' share		15,851	16,193
	- net of reinsurance		(103,221)	(93,376)
Change in provision for claims	- gross amount		365	(1,104)
	- reinsurer's share		106	5
	- net of reinsurance		471	(1,099)
Total claims incurred			(102,750)	(94,475)
CHANGE IN OTHER TECHNICAL PROVISIONS, NET OF REINSURANCE				
Long term business provision	- gross amount	19	(76,899)	(74,513)
	- reinsurers' share	19	21,787	2,032
	- net of reinsurance		(55,112)	(72,481)
Technical provision for linked liabilities, gross and net of reinsurance		20	(27,401)	87,912
			(82,513)	15,431
Net operating expenses		7	(8,757)	(8,613)
Investment expenses and charges		8	(1,319)	(1,357)
Unrealised losses on investment		4	-	(35,629)
Other technical charges, net of reinsurance		5	(312)	(347)
Tax attributable to long term business		11	(1,181)	1,469
Actuarial losses on pension scheme		27	(1,982)	(1,197)
Transfer (to)/from the fund for future appropriations		12	(10,654)	19,751
			(24,205)	(25,923)
BALANCE ON THE LONG TERM BUSINESS TECHNICAL ACCOUNT			-	-

There are no recognised gains or losses other than those shown above
The notes on pages 30 to 75 form an integral part of these financial statements
All activities are continuing

BALANCE SHEETS
At 31 December 2012

Assets	Notes	2012 Group £000	2012 Society £000	2011 Group £000	2011 Society £000
INTANGIBLE ASSETS					
Goodwill	16	(234)	-	(273)	-
INVESTMENTS					
Land and Buildings	13	3,750	3,750	3,785	3,785
Investments in group undertakings	14	-	1,022	-	1,033
Other financial investments	15	1,031,694	1,031,258	968,724	968,231
		1,035,444	1,036,030	972,509	973,049
PRESENT VALUE OF ACQUIRED IN FORCE BUSINESS	16	2,007	1,774	2,293	2,049
ASSETS HELD TO COVER LINKED LIABILITIES	17	661,400	661,400	644,839	644,839
REINSURERS' SHARE OF TECHNICAL PROVISIONS					
Long term business provision	18	55,086	55,086	33,299	33,299
Claims outstanding	19	228	228	122	122
		55,314	55,314	33,421	33,421
DEBTORS					
Debtors arising out of direct insurance operations		357	357	297	297
Debtors arising out of reinsurance operations		246	246	257	257
Amounts owed by group undertakings		-	108	-	126
Other debtors		1,170	828	1,183	954
		1,773	1,539	1,737	1,634
OTHER ASSETS					
Tangible assets	22	223	223	330	330
Cash at bank and in hand		2,091	992	1,611	452
		2,314	1,215	1,941	782
PREPAYMENTS AND ACCRUED INCOME					
Accrued interest and rent		16,478	17,058	16,467	17,026
Deferred acquisition costs	23	251	251	313	313
Other prepayments and accrued income		242	242	167	167
		16,971	17,551	16,947	17,506
TOTAL ASSETS EXCLUDING PENSION SCHEME ASSET		1,774,989	1,774,823	1,673,414	1,673,280
DEFINED BENEFIT PENSION ASSET	27	-	-	77	77
TOTAL ASSETS INCLUDING PENSION SCHEME ASSET		1,774,989	1,774,823	1,673,491	1,673,357

BALANCE SHEETS
At 31 December 2012

Liabilities	Notes	2012 Group £000	2012 Society £000	2011 Group £000	2011 Society £000
FUND FOR FUTURE APPROPRIATIONS	12	95,799	95,800	85,145	85,174
TECHNICAL PROVISIONS					
Long term business provision	18	982,508	982,508	906,634	906,634
Claims outstanding	19	13,391	13,283	13,842	13,729
		995,899	995,791	920,476	920,363
TECHNICAL PROVISIONS FOR LINKED LIABILITIES	20	661,400	661,400	644,839	644,839
PROVISIONS FOR OTHER RISKS AND CHARGES	25	-	-	242	242
DEPOSITS RECEIVED FROM REINSURERS		9,516	9,516	10,024	10,024
CREDITORS					
Creditors arising out of direct insurance operations		411	411	1,269	1,269
Creditors arising out of reinsurance operations		181	181	47	47
Amounts owed to group undertakings		-	20	-	15
Other creditors including taxation and social security	26	9,570	9,491	10,007	9,942
		10,162	10,103	11,323	11,273
ACCRUALS AND DEFERRED INCOME		1,299	1,299	1,442	1,442
TOTAL LIABILITIES EXCLUDING PENSION SCHEME DEFICIT		1,774,075	1,773,909	1,673,491	1,673,357
DEFINED BENEFIT PENSION LIABILITY	27	914	914	-	-
TOTAL LIABILITIES INCLUDING PENSION SCHEME DEFICIT		1,774,989	1,774,823	1,673,491	1,673,357

The notes to pages 30 to 75 form an integral part of these financial statements

The financial statements were approved by the Board of directors on 28/3/2013 and were signed on its behalf by

M Goodale
Director

C Mills
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

The Society is a mutual life assurance company Consequently, the company has taken advantage of the exemption from preparing a cashflow statement under the terms of FRS 1 (revised 1996) 'cash flow statements'

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

The directors believe that the carrying value of the investments is supported by their underlying net assets

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 1 2 of the Insurance Prudential Sourcebook) and the Association of British Insurers Statement of Recommended Practice on Accounting for Insurance Business (December 2005 revised December 2006) In determining the long-term business provision all relevant guidance from the Board of Actuarial Standards, and in particular Guidance Notes 7 and 44, has been followed

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

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

Technical provisions for linked liabilities

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

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

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

Deferred acquisition costs

Deferred acquisition costs for insurance contracts are assessed by taking account of the costs incurred in the sale of existing contracts and the potential for recovery of those costs out of margins available over the remaining life of the policies concerned No acquisition costs are deferred in respect of single premium contracts The rate of amortisation is consistent with the pattern of emergence of such margins

Fund for future appropriations

The fund for future appropriations represents all funds, the allocation of which to policyholders has not yet been determined by the end of the financial year Any unappropriated surplus or deficit arising on the technical account is transferred to or from the fund on an annual basis

Taxation

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

Deferred taxation

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

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

Operating leases

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

Foreign currencies

Assets and liabilities held in foreign currencies are translated to sterling at rates of exchange ruling at the end of the year Income and expenditure denominated in foreign currencies are translated at the appropriate rates prevailing during the year

Pension Costs

The Society operates a defined benefit pension scheme which closed to future accrual for all but two 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

There are a number of risks and uncertainties that could have a material impact on the Society and Group's future performance Our views of these principal risks and uncertainties and the framework used within the Group to manage them is discussed in the Directors Report on page 8 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 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

Prior to the Creditors Scheme of Arrangement, which was effective on 1 August 2012, the Society comprised six with profits funds These were 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

Since 1 August 2012, RM WPSF no longer exists At the Scheme's effective date, the assets and liabilities of the fund were split into two new funds, the Ordinary Sub Fund (OSF) and WPSF1

Unit linked business is primarily held in OSF (previously 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 represent the risk only 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 Any significant changes will be referred to the Board for its approval
2) Monitoring the methodology and rationale behind all deals that are executed and asset allocation decisions that are taken, including the review of cross trades completed to ensure that the interests of investors in all funds involved have been appropriately considered
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 OSF, separate portfolios of assets are maintained for annuities, each unit-linked fund, guaranteed income bonds and other contracts Each of the sub funds WPSF1 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 OSF 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 £56 2m (2011 £60 9m), financial investments would also decrease in value by £65 7m (2011 £70 1m) resulting in a decrease in the FFA of £9 6m (2011 decrease of £9 1m)

A decrease of 20% in interest rates would increase the value of the long term business provision by £61 5m (2011 £69 5m), financial investments would also increase in value by £78 0m (2011 £84 9m) resulting in an increase in the FFA of £16 5m (2011 increase of £15 4m)

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 2012 or 2011

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 20)

An increase of 10% in equity prices and an increase of 20% in property prices would increase the value of the long term business provision by £0 6m (2011 £0 0m), financial investments would also increase in value by £5 0m (2011 £4 6m) resulting in an increase in the FFA of £4 4m (2011 £4 6m)

A decrease of 10% in equity prices and a decrease of 20% in property prices would decrease the value of the long term business provision by £0 5m (2011 £0 1m) and decrease the values of financial assets by £5 0m (2011 £3 9m) resulting in a decrease in the FFA of £4 5m (2011 £4 8m)

iv) Property Price risk

The Group is exposed to investment property value fluctuations in OSF 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 2012 are reinsured by one provider only A new material reinsurance contract was entered into during the year which reinsures the liability for other annuities in payment This also operates on a reverse risk premium basis therefore limiting the loss arising from the reinsurer defaulting This is further to an existing reinsurance contract for other annuities in payment In this latter case the reinsurer deposits an amount of collateral with the Society that limits credit risk

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

	2012 £000	2011 £000
Non-linked assets subject to credit risk		
Sovereign Debt	188,259	214,356
AAA	35,773	37,389
AA	173,706	158,841
A	337,848	308,040
BAA	12,179	
BBB and below or not rated	263,286	210,219
Total assets bearing credit risk	1,011,051	928,845
Derivatives financial instruments	15,859	17,509
Debt securities	898,605	841,394
Loans & Receivables	5,138	5,311
Assets arising from reinsurance contracts held	55,560	33,678
Deposits with credit institutions	35,889	30,953
Total assets bearing credit risk	1,011,051	928,845

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 2012 (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 £22 9m (2011 £23 4m)

A decrease of 33% in credit default margins would decrease liabilities and increase the FFA by £21 9m (2011 £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 5m (2011 £0 6m), all policies include the right to surrender or transfer the policy on demand, with the surrender or transfer value calculation method being determined by the policy conditions The majority of the contracts are unit linked, where the liabilities are matched by assets held in internal linked funds All linked assets are readily marketable except for direct properties held in the property funds In the property funds, the Society has the right to defer payment of surrender or transfer values by up to six months This right was not exercised at any time in the current or prior year

The investment contracts that are not unit linked have a maximum outstanding duration of five years and are backed by fixed term deposits or short dated fixed interest securities matching the outstanding duration The Society is exposed to requests for early surrender of such polices when the backing assets are illiquid The maximum exposure, were all contracts to surrender at the balance sheet date is £9 1m (2011 £9 6m)

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 2012					
Financial liabilities under non-profit investment contracts	445,450	214	-	-	445,664
Creditors	6,035	5,187	3,414	9,221	23,857
Financial liabilities at amortised cost	451,485	5,401	3,414	9,221	469,521
Financial liabilities under with profits investment contracts included in long term business provision	10,387	-	-	-	10,387
	461,872	5,401	3,414	9,221	479,908

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 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

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 2012

	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	52 7	23 5	-	76 2
- debt securities and other fixed income securities	186 0	712 6	-	898 6
- derivative financial investments	-	-	15 9	15 9
	238 7	736 1	15 9	990 7
Financial assets held to cover linked liabilities	359 0	278 0	-	637 0
	597 7	1,014 1	15 9	1,627 7

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 £637 0m (2011 £622 5m) of financial assets held to cover linked liabilities a further £24 4m (2011 £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 2012

	Derivatives £m
Opening balance	17 5
Gains and losses recognised in the profit or loss	(1.6)
Closing balance	15 9
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	1 7

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

	2012 £000	2011 £000
Gross premiums written comprise		
Direct insurance	60,746	42,822
Gross direct premiums written in respect of insurance contracts and with profits investment contracts		
Periodic premiums	6,179	7,047
Single premiums	54,567	35,775
	60,746	42,822
Life insurance contracts	5,600	6,881
Pensions	55,076	35,861
Sickness and disability contracts	70	80
	60,746	42,822
Unit linked insurance contracts	4,444	5,300
Non linked contracts	56,302	37,522
	60,746	42,822
Geographical analysis		
United Kingdom	60,732	42,812
Germany	(1)	(4)
Finland	15	17
Italy	-	(3)
	60,746	42,822

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

	2012 £000	2011 £000
Unit linked investment contracts		
Life	112	157
Pensions	9,228	9,576
	9,340	9,733

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

	2012 £000	2011 £000
Periodic premiums	32	54
Single premiums	54,567	35,775
	54,599	35,829
Life insurance contracts	(77)	474
Pension contracts	54,676	35,355
	54,599	35,829
Unit linked insurance contracts	-	66
Non linked contracts	54,599	35,763
	54,599	35,829
Geographical analysis		
United Kingdom	54,600	35,836
Germany	(1)	(4)
Italy	-	(3)
	54,599	35,829

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

	2012 £000	2011 £000
Unit linked investment contracts		
Pensions – single premiums	5,955	5,992

c) Reinsurance Balance

The reinsurance balance amounted to a credit to the long term business technical account at 31 December 2012 of £22 442m (2011 credit of £2 729m)

4 Investment Return

	2012 £000	2011 £000
Investment income:		
Income from other financial investments		
- Loans and receivables interest income	151	110
Total interest income on financial assets not at fair value through profit or loss	151	110
Income from financial assets at fair value through profit or loss	68,935	63,886
	69,086	63,996
Income from land and buildings	218	245
Net return on pension scheme (note 27)	40	116
Net gains on the realisation of investments	22,646	9,540
	91,990	73,897
Investment expenses and charges.		
Investment management expenses	(1,319)	(1,358)
Total investment management expenses	(1,319)	(1,358)
Net unrealised gains/(losses) on investments	68,389	(35,629)
Total investment return	159,060	36,910
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	91,659	(34,616)
- Assets held for trading	(624)	8,527
Total net realised and unrealised gains/(losses) included in investment return	91,035	(26,089)
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	(31,104)	(47,301)
Interest in respect of financial liabilities at amortised cost	(31,104)	(47,301)
- Interest expense in respect of with profits investment contracts	12	1,610
Total interest (income)/expense for financial liabilities not at fair value through profit and loss	(31,092)	(45,691)

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

	2012 £000	2011 £000
a) Other technical income		
Fee income from investment contracts	3,369	3,429
Reliance Unit Managers Limited	342	312
Reliance Administration Services Limited	57	60
	3,768	3,801
b) Other technical charges		
The Reliance Fire & Accident Insurance Corporation Limited	24	22
FS Management Limited	13	9
Amortisation of present value of acquired in-force business	275	316
	312	347

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 £10 341m (2011 £9 487m)

7 Net Operating Expenses

	2012 £000	2011 £000
Acquisition costs	2,098	2,335
Change in deferred acquisition costs	62	77
Administrative expenses	6,473	6,148
Reinsurance commissions	124	53
	8,757	8,613

Total commission for direct insurance accounted for by the Group during the year amounted to -£0 02m (2011 £0 938m)

	2012 £000	2011 £000
Included within the administration expenses are		
Audit services:		
Fees payable to PricewaterhouseCoopers LLP for audit of the parent company's consolidated annual accounts	288	268
Under/(over) provision for previous year	17	(5)
Non-audit services.		
Fees payable to PricewaterhouseCoopers LLP and its associates for other services		
The audit of the company's subsidiaries, pursuant to legislation	38	36
Other services pursuant to legislation, including the audit of the regulatory return	51	49
Other services – Accountancy advisory	-	35
	394	383
Fees payable to PricewaterhouseCoopers LLP in respect of Reliance Pension Scheme		
Audit	6	6

Audit fees shown are net of VAT but the cost to the company is gross

In 2012 and 2011 the Society settled the audit fees for the whole Group, an allocation was then made to subsidiary companies

	2012 £000	2011 £000
Depreciation of tangible assets	273	396
Operating lease rentals – land and buildings	118	130
Operating lease rentals receivable – land and buildings	(72)	(70)

In addition to the lease rentals paid £46k (2011 nil) was incurred surrendering the lease on a closed office branch

8. Investment Expenses and Charges

	2012 £000	2011 £000
Investment Expenses	1,319	1,357

9 Employee Information

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

	2012 No	2011 No
Management	8	7
Administration	75	69
	83	76

Staff costs for the above totalled	2012 £000	2011 £000
Wages and Salaries	4,056	3,400
Social Security costs	504	422
Other Pension costs		
- Defined Benefit (note 27)	178	159
- Defined Contribution	270	232
	5,008	4,213

10 Directors' Emoluments

	2012 £000	2011 £000
Total directors' emoluments	638	540
Highest paid director (included in above figures)	349	342

The total accrued pension to the highest paid director in respect of the Group's defined benefit pension scheme was £15,134 (2011 £11,819) as at 31 December 2012 The Group and Society's contributions in respect of the defined contribution scheme for the highest paid director were £22,870 during the period (2011 £22,165) See the Remuneration Report on pages 18-19 for more detailed directors' emoluments

11 Taxation

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

	2012 £000	2011 £000
UK Corporation Tax at 20% (2011 – 20%)	1,553	(1,003)
Adjustments in respect of prior periods	(398)	(46)
Total current tax	1,155	(1,049)
Deferred taxation		
within technical provision for linked liabilities	(87)	-
FRS17 deferred tax	126	(8)
other deferred taxation origination and reversal of timing differences (see note 24)	2	(421)
movement in discount	(15)	9
Total deferred tax	26	(420)
Tax credit on profit on ordinary activities	1,181	(1,469)

UK corporation tax in the technical account has been calculated at rates at 20% (2011 20%) in accordance with the rates applicable to the long-term business

12 Fund for Future Appropriations

	2012		2011	
	Group £000	Society £000	Group £000	Society £000
At 1 January	85,145	85,174	104,896	104,954
Transfer from/(to) profit and loss account	10,654	10,626	(19,751)	(19,780)
At 31 December	95,799	95,800	85,145	85,174

13 Land and Buildings – Group and Society

	2012 £000	2011 £000
Freehold	3,750	3,785

The cost of land and buildings was £5 172m (2011 £5 172m)

Land and buildings have detailed valuations carried out on a rolling program throughout the year However all valuations were reviewed as at 31 December 2012

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 (2011 £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

	2012 Current Value £000	2012 Cost £000	2011 Current Value £000	2011 Cost £000
The Reliance Fire & Accident Insurance Corporation Limited	311	1,000	336	1,000
Reliance Unit Managers Limited	442	50	412	50
Reliance Pension Scheme Trustee Limited	-	-	-	-
Reliance Administration Services Limited	207	100	210	100
FS Management Limited	62	50	75	50
	1,022	1,200	1,033	1,200

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

	2012 Market Value £000	2012 Cost £000	2011 Market Value £000	2011 Cost £000
Financial assets at fair value through profit or loss				
Designated upon initial recognition	974,808	863,352	914,950	845,945
Derivative financial instruments – held for trading	15,859	6,396	17,509	6,318
	990,667	869,748	932,459	852,263
Loans and receivables at amortised cost	41,027	41,700	36,265	36,346
Total financial assets	1,031,694	911,448	968,724	888,609

Included in balance sheet as follows

	2012 Market Value £000	2012 Cost £000	2011 Market Value £000	2011 Cost £000
Shares and other variable yield securities and units in unit trusts	76,203	62,736	73,557	60,006
Debt securities and other fixed income securities	898,605	800,616	841,393	785,939
Loans secured by mortgages	227	227	284	284
Other loans	4,911	4,872	5,027	5,027
Deposits with credit institutions	35,889	36,601	30,954	31,035
Other - Derivative financial instruments	15,859	6,396	17,509	6,318
	1,031,694	911,448	968,724	888,609

b) Society Balance Sheet

	2012 Market Value £000	2012 Cost £000	2011 Market Value £000	2011 Cost £000
Financial assets at fair value through profit or loss				
Designated upon initial recognition	974,788	863,332	914,475	845,473
Derivative financial instruments – held for trading	15,859	6,396	17,509	6,318
	990,647	869,728	931,984	851,791
Loans and receivables at amortised cost	40,611	41,284	36,247	36,330
Total financial assets	1,031,258	911,012	968,231	888,121

Included in balance sheet as follows

	2012 Market Value £000	2012 Cost £000	2011 Market Value £000	2011 Cost £000
Shares and other variable yield securities and units in unit trusts	76,183	62,716	73,503	59,951
Debt securities and other fixed income securities	898,605	800,616	840,972	785,522
Loans secured by mortgages	227	227	284	284
Other loans	4,911	4,872	5,027	5,027
Deposits with credit institutions	35,473	36,185	30,936	31,019
Other - Derivative financial instruments	15,859	6,396	17,509	6,318
	1,031,258	911,012	968,231	888,121

c) Listed Investments

	2012 Group £000	2012 Society £000	2011 Group £000	2011 Society £000
Shares and other variable yield securities and units in unit trusts	76,203	76,183	73,557	73,503
Debt securities and other fixed income securities	898,605	898,605	841,393	840,972
	974,808	974,788	914,950	914,475

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 4m (2011 £1 5m)

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 £15 7m (2011 £17 5m) that cost £6 2m (2011 £6 3m)

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 loss in the year amounted to £0 6m (2011 gains of £8 5m)

g) Collateral

Included within the Group and Society's 'Deposits with credit institutions' is £5 8m (2011 £7 3m) 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

	2012		2011	
	Goodwill	Present Value of Acquired Business	Goodwill	Present Value of Acquired Business
	£000	£000	£000	£000
Cost				
At 1 January	(585)	5,370	(585)	5,370
At 31 December	(585)	5,370	(585)	5,370
Amortisation				
At 1 January	312	(3,077)	273	(2,751)
Amortisation during year	39	(286)	39	(326)
At 31 December	351	(3,363)	312	(3,077)
Net book value at 31 December	(234)	2,007	(273)	2,293
Net book value at 1 January	(273)	2,293	(312)	2,619

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

	2012 Goodwill	2012 Present value of Acquired Business	2011 Goodwill	2011 Present Value of Acquired Business
	£000	£000	£000	£000
Cost				
At 1 January	-	4,920	-	4,920
At 31 December	-	4,920	-	4,920
Amortisation				
At 1 January	-	(2,871)	-	(2,555)
Amortisation during year	-	(275)	-	(316)
At 31 December	-	(3,146)	-	(2,871)
Net book value at 31 December	-	1,774	-	2,049
Net book value at 1 January	-	2,049	-	2,365

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

	2012 Market Value	2012 Cost	2011 Market Value	2011 Cost
	£000	£000	£000	£000
Assets held to cover linked liabilities	661,400	539,010	644,839	550,083

18 Long Term Business Provision

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

	2012 Group and Society £000	2011 Group and Society £000
Gross amount		
Mathematical reserves, before bonus	987,912	918,198
Cost of bonus added at year end	547	659
Zillmer adjustment	-	20
FRS26 adjustment – sterling reserves	(5,951)	(12,243)
Long term business provision	982,508	906,634
Reinsurance		
Mathematical reserves, before bonus	55,086	33,299
Long term business provision	55,086	33,299
Net amounts		
Mathematical reserves, before bonus	932,826	884,899
Cost of bonus added at year end	547	659
Zillmer adjustment	-	20
FRS26 adjustment – sterling reserves	(5,951)	(12,243)
Long term business provision	927,422	873,335

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, where relevant, for expected future experience

Valuation basis

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

Interest Rates

Product group	Interest Rate 2012	Interest Rate 2011
Ordinary Sub Fund		
Guaranteed income and growth bonds	3 39%	3 40%*
Other without profits life assurances	1 64%	1 77%*
Life fund annuities in payment	2 53%	2 36%*
Pension deferred annuities and assurances	2 05%	2 21%*
Pension annuities in payment	3 16%	3 68%*
With Profits Sub Fund 1		
With profits life assurances and endowments	1 64%	1 02%*
With Profits Sub Fund 4		
Deferred annuities - series 1 regular premium and series 2	1 45%	1 68%
Deferred annuities - series 1 single premium	0 95%	1 24%
Annuities in payment and deferred annuities after vesting	2 44%	2 76%
With Profits Sub Fund 5		
Life annuities in payment	2 11%	2 46%
Pension annuities in payment	2 64%	3 07%
With Profits Sub Fund 6		
Deferred annuities – with profits group 3	2 82%	3 32%
Deferred annuities – other with profits	1 90%	2 06%
Annuities in payment	2 75%	3 34%

*The comparatives for 2011 related to the Reliance Mutual With Profits Sub Fund

Mortality tables

Product group		Mortality table 2012	Mortality table 2011
All ordinary branch assurances in all sub funds		A00	A00
All industrial branch assurances		ELT16	ELT16
Enhanced smoker annuities in payment		90% RGA base	90% RGA base
Smoker annuities in payment (see note)		152 5% PCA00	150% PA92
Non-smoker annuities in payment (see note)	Male Female	67 5% PCMA00 65 0% PCFA00	67 5% PA92 87 5% PA92
Aggregate annuities in payment (OSF/RM WPSF)	Male Female	120 0% PCMA00 107 5% PCFA00	115% PCA 92 115% PCA 92
Aggregate annuities in payment, and deferred annuities post-vesting (WPSF4) (see note)	Male Female	107 5% PCMA00 85 0% PCFA00	104 5% PMA92 95 0% PFA92
Aggregate annuities in payment (WPSF5)	Male Female	82 5% PCMA00 70 0% PCFA00	80% PCA 92 80% PCA 92
Aggregate annuities in payment (WPSF6)	Male Female	120 0% PCMA00 102 5% PCFA00	115% PCA 92 115% PCA 92

Product group	Mortality table 2012	Mortality table 2011
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 A00 refers to AM00 for males and AF00 for females PCMA00 refers to the graduation of amounts data for pensions combined published in CMI working papers 21 and 22, 2006 and CMI report 23, 2009, projected using CMI 2011 improvement factors as above

Notes

Smoker annuities in payment Males 152 5% of the mortality table was used for ages up to 70 The percentage then reduced linearly to 127 5% at age 85 and 102 5% at age 120 Females 152 5% of the mortality table was used for ages up to 70 The percentage then reduced linearly to 127 5% at age 85 and 102 5% at age 120

Non-smoker annuities
Males 67 5% of the mortality table was used for ages up to 70 The percentage then increased linearly to 77 5% at age 85 and 87 5% at age 120 Females 65% of the mortality table was used for ages up to 70 The percentage then increased linearly to 75% at age 85 and 80% at age 120

Aggregate annuities in WPSF4 (males only) 107 5% of the table was used for ages up to 60 The percentage then reduced linearly to 87 5% at ages 85 and above

Mortality improvements

Product group	Mortality Improvements 2012		Mortality Improvements 2011	
	Male	Female	Male	Female
Enhanced smoker annuities in payment	100% RGA improvement	100% RGA improvement	100% RGA improvement	100% RGA improvement
Smoker annuities in payment	75% MC	75% MC	75% MC	75% MC
minimum	2 0%	1 75%	1 3125%	1 0%
Non-smoker annuities in payment	75% MC	75% MC	75% MC	75% MC
minimum	2 0%	1 75%	1 3125%	1 0%
Aggregate annuities in payment (OSF*)	100% MC	75% MC	100% MC	75% MC
minimum	2 0%	1 75%	1 75%	1 3125%
Aggregate annuities in payment, and deferred annuities post-vesting (WPSF4)	100% MC	75% MC	100% MC	75% MC
minimum	2 0%	1 75%	1 75%	1 3125%
Aggregate annuities in payment (WPSF5)	100% MC	75% MC	100% MC	75% MC
minimum	2 0%	1 75%	1 75%	1 3125%
Aggregate annuities in payment (WPSF6)	100% MC	75% MC	100% MC	75% MC
minimum	2 0%	1 75%	1 75%	1 3125%

Annuitant mortality improvements set out above only apply to years after 2000 For earlier years, 100% of the published improvement table has been used

*The comparatives for 2011 related to the Reliance Mutual With Profits Sub Fund (RM WPSF)

Margin for credit default risk

Bond Rating	2012 basis points	2011 basis points
Sovereign debt	Nil	Nil
AAA	41	73
AA	67	73
A	86	115
BBB	128	156
BB	281	495
B	n/a	n/a
CCC	n/a	n/a

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 £	
	2012	2011	2012	2011	2012	2011
All industrial branch business	15 88	18 00*	0 32	0 36*	11 59	17 78*
Ordinary Sub Fund						
OB life assurances except as specified below	31 75	36 00*	11 11	12 60*	77 25	118 50*
Single premium unit linked investment bonds	-	-	23 81	27 00*	77 25	118 50*
Linked and non-linked guaranteed income bonds (annual rollovers)	-	-	31 75	36 00*	7 73	11 85*
Linked and non-linked guaranteed income bonds (3- and 5- yearly rollovers)	-	-	31 75	36 00*	30 90	47 40*
Linked and non-linked guaranteed growth bonds (annual rollovers)	-	-	15 88	18 00*	7 73	11 85*
Linked and non-linked guaranteed growth bonds (3- and 5- yearly rollovers)	-	-	31 75	36 00*	30 90	47 40*
All annuities in payment	-	-	29 00	31 50*	-	-
All pension deferred annuities and assurances	31 75	36 00*	11 11	12 60*	212 44	325 88*
With Profits Sub Fund 4						
Annuities in payment		-	38 29	37 87		-
Deferred annuities	38 29	37 87	13 40	13 26	474 75	469 65
Assurances	38 29	37 87	13 40	13 26	229 72	227 25
With Profits Sub Fund 5 – all policies, expressed as % SA	0 3%	0 3%		-		-
With Profits Sub Fund 6						
All life assurances	33 37	33 01	11 68	11 55	82 58	81 69
Annuities in payment		-	33 37	33 01		-
All pension deferred annuities	33 37	33 01	11 68	11 55	227 10	224 65

*The comparative for 2011 related to the Reliance Mutual With Profits Sub Fun

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 OSF, 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 it is also beneficial for smokers The contracts in WPSF6 and most of the contracts in OSF 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 OSF

Technical provisions include £33 7m (2011 £32 8m) in respect of the additional costs of the guarantees The technical provisions have been established with prudential margins for adverse deviation from the central assumptions To the extent that economic conditions move adversely, or policyholders elect to withdraw benefits at times when the guarantees are more valuable, the Society is exposed to risk This is because the protection provided by the asset portfolio that backs the technical provisions is not complete

2 Maturity and surrender value guarantees

Various unit linked policies have minimum guaranteed values either at maturity or on surrender at various dates An additional provision of £485,000 (2011 £655,000) 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 £33,000 (2011 £60,000) 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 threshold 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 £56 2m

A reduction of 10% in the expense assumptions for all contracts would reduce the long term business provision by £6 3m

A decrease of 25% in the mortality base percentages used for annuities in payment would increase the group long-term business provision by £15 8m

An increase of 33% in credit default margins would increase the long term business provision by £22 9m

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 provisionsBalance at 1 January 2012	896,890	9,744	906,634	13,842
Payments made to policyholders of, and fees deducted from, investment contracts	-	(1,025)	(1,025)	-
Movement for the year	76,396	503	76,899	(451)
Balance at 31 December 2012	973,286	9,222	982,508	13,391
Reinsurers' Share				
Balance at 1 January 2012	33,299	-	33,299	122
Movement for the year	21,787	-	21,787	106
Balance at 31 December 2012	55,086	-	55,086	228
Net technical provisions				
Balance at 31 December 2012	918,200	9,222	927,422	13,163
Balance at 1 January 2012	863,591	9,744	873,335	13,720

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

	Long Term Business Provision – Insurance & Investment with dpf contracts	Long Term Business Provision – Investment contracts	Total Long Term Business Provision	Claims Outstanding
	£000	£000	£000	£000
b Society Balance Sheet				
Gross technical provisions				
Balance at 1 January 2012	896,890	9,744	906,634	13,729
Payments made to policyholders of, and fees deducted from, investment contracts	-	(1,025)	(1,025)	(446)
Movement for the year	76,396	503	76,899	-
Balance at 31 December 2012	973,286	9,222	982,508	13,283
Reinsurers' Share				
Balance at 1 January 2012	33,299	-	33,299	122
Movement for the year	21,787	-	21,787	106
Balance at 31 December 2012	55,086	-	55,086	228
Net technical provisions				
Balance at 31 December 2012	918,200	9,222	927,422	13,055
Balance at 1 January 2012	863,591	9,744	873,335	13,607

With profits investment contracts

Included within the long-term business provision are amounts of £10 7m (2011 £11 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	
	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000
At 1 January	416,178	475,589	228,661	269,272	644,839	744,861
Deposits received from policyholders under investment contracts	9,340	9,733	-	-	9,340	9,733
Payments made to policyholders of, and fees deducted from, investment contracts	(20,180)	(21,843)	-	-	(20,180)	(21,843)
Change in technical provision as shown in the technical account	31,104	(47,301)	(3,703)	(40,611)	27,401	(87,912)
At 31 December	436,442	416,178	224,958	228,661	661,400	644,839

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 £436 4m for both the Group and Society, (2011 £416 2m) which is equivalent to the amount payable under the contract, based on the current fund value

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 seven 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 seven 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

2012

	OSF £000	WPSF1 £000	WPSF 2, 3 and 5 £000	WPSF 4 £000	WPSF 6 £000	Total Society £000	Consol adj £000	Group Total £000
Fund for Future Appropriations	38,034	19,311	9,018	24,679	4,758	95,800	(1)	95,799
Adjustments on to regulated basis								
Positive valuation differences								
Negative valuation differences	(5,951)	-	-	-	-	(5,951)	-	(5,951)
Inadmissible assets	(1,374)	(909)	-	-	-	(2,283)	1	(2,282)
Total available capital resource	30,709	18,402	9,018	24,679	4,758	87,566	-	87,566

The capital statement shows an increase in available capital resources of £17 5m 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

	OSF £000	WPSF1 £000	WPSF 2, 3 & 5 £000	WPSF 4 £000	WPSF 6 £000	Total Society and Group £000
With profits insurance contracts	-	8,074	15,282	46,464	83,913	153,676
With profits investment contracts	266	-	-	-	10,124	10,387
Non profit insurance contracts	618,651	474	18,422	98,918	33	754,137
Non profit investment contracts	9,222	-	-	-	-	9,222
	628,139	8,548	33,704	145,382	94,070	927,422
Unit linked insurance contracts	224,921	-	37	-	-	224,958
Unit linked investment contracts	436,442	-	-	-	-	436,442
Total technical liabilities net of reassurance	1,289,502	8,548	33,741	145,382	94,070	1,588,822

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 for 2011 shows a decrease in available capital resources of £23 3m 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 reassurance	1,228,961	35,909	157,530	95,774	1,518,174

c) **Movement in capital resources**

2012

The capital statements show an increase in available capital resources of £17 5m 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/ OSF and WPSF1 £000	WPSF 2, 3 and 5 £000	WPSF 4 £000	WPSF 6 £000	Total Society and Group £000
Available Capital Resource at 1 January 2012	43,520	8,523	17,079	1,015	70,137
Expected change based on December 2011 assumptions	8,966	2,639	10,514	4,708	26,827
Valuation method and assumption					
Change in mortality assumptions	(4,400)	24	517	128	(3,731)
Change in expense assumptions	(12,675)	(12)	(184)	233	(12,638)
	(17,075)	12	333	361	(16,369)
Effect of new reinsurance treaty	6,305	579	5,832	-	12,716
Non guaranteed bonuses paid	(6,307)	(1,656)	(2,873)	(932)	(11,768)
Investment Returns					
Market movements	13,168	(1,097)	(6,240)	(395)	5,436
Change in inadmissible assets	480	-	-	-	480
Other	54	18	34	1	107
Available capital resource at 31 December 2012	**49,111**	**9,018**	**24,679**	**4,758**	**87,566**

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

Changes in the valuation basis and methodology overall have had a moderate impact except in OSF and 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

Key factors in the movement for RM WPSF, OSF and WPSF1 include increased expense reserves, however from a total Society and Group perspective this has been offset by the effect of the new reinsurance treaty

It has not been practical to analyse the movement in capital resources separately for RM WPSF, OSF and WPSF1 during the year However the split of capital resource at 31 December 2012 between OSF and WPSF1 can be seen in note 21(b)

At 31 December 2012 available capital represented 180% of the Group's total capital resource requirements (2011 158%)

2011

The decrease in available capital resources of £23 3m during 2011 is analysed in the table below

	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					
Expected change based on December 2010 assumptions	63,111	9,827	18,904	1,517	93,359
	2,693	106	443	304	3,546
Valuation method and assumption					
Relating to benefit guarantees	(535)	198	(68)	(408)	(813)
Mortality assumptions	164	-	1,803	86	2,053
Expense and inflation items	(6,392)	47	222	94	(6,029)
Valuation discount rate methods	6,655	47	915	606	8,223
Credit default risk	(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 WPSF 4 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 were the primary factory 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

22. Tangible Assets

Group and Society

	Computer Hardware and software £000	Office Equipment £000	Total £000
Cost			
Brought forward	628	99	727
Additions	187	2	189
Fully depreciated items written off	(420)	-	(420)
At 31 December 2012	395	101	496
Depreciation			
Brought forward	338	59	397
Charge for the year	283	13	296
Fully depreciated items written off	(420)	-	(420)
At 31 December 2012	201	72	273
Book value at 31 December 2012	194	29	223
Book value at 31 December 2011	290	40	330

23 Deferred Acquisition Costs

	2012		2011	
	Group £000	Society £000	Group £000	Society £000
On insurance contracts and with profits investment contracts	251	251	313	313

24 Deferred Taxation

	Group £000	Society £000
Deferred tax asset at 1 January 2012	335	335
Movement in undiscounted deferred tax asset	(156)	(156)
Movement in discount	15	15
Deferred tax asset at 31 December 2012	194	194

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

	Group		Society	
	2012 £000	2011 £000	2012 £000	2011 £000
Deferred tax (provision)/asset on				
Unrelieved expenses	229	400	229	400
Deferred acquisition costs	(39)	(47)	(39)	(47)
Other	7	-	7	-
Undiscounted deferred tax asset	197	353	197	353
Discount	(3)	(18)	(3)	(18)
Discounted deferred tax asset	194	335	194	335
Deferred tax asset/(liability) on pension liability/asset (note 27)	96	(11)	96	(11)
Asset at end of year including deferred tax on pension asset/liability	290	324	290	324

At 31 December 2012 deferred tax assets were nil (2011 - £7 6m) Due to a change in the calculation of life tax from 1 January 2013 the previous deferred tax asset not recognised is now worthless as the business they related to fell out of the scope of the tax

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 2012 is £1 4m (2011 - £1 3m)

25 Provisions for Other Risks and Charges

Group and Society

	Onerous Leases
	£000
Provision at 1 January 2012	242
Amount credited to profit and loss account	(150)
Amounts utilised during the year	(92)
Provision at 31 December 2012	-

The provision for future expenses on onerous leases on former offices is stated after offsetting projected income from subletting Only one property now remains which is sublet at the same cost as the headlease As a result there is no longer a requirement for a provision

26 Other Creditors including taxation and social security

	2012		2011	
	Group £000	Society £000	Group £000	Society £000
Taxation and Social Security	1,513	1,444	1,920	1,859
Collateral held	5,800	5,800	7,300	7,300
Other creditors	2,257	2,247	787	783
	9,570	9,491	10,007	9,942

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 two 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

Defined Contribution Scheme

The contribution to the defined contribution scheme, which commenced on 1 July 2010, in the year amounted to £0 3m (2011 £0 2m)

Defined Benefit Scheme

During the year ended 31 December 2012 the Society made contributions (including deficit funding) of £1 0m (2011 £1 2m) The scheme is now closed to future accrual for all but two members

The last full valuation of the scheme was carried out as at 1 April 2010 and this was updated to 31 December 2012 by qualified independent actuaries

The principal assumptions used in the updated valuation were as follows

At 31 December	2012 %	2011 %
Rates of inflation		
• Retail Prices Index (RPI)	3 3	3 2
• Consumer Price Index (CPI)	2 8	2 2
Increases to pensionable salary	3 0	3 0
Increases to pension payment (non-GMP)	2 4	2 4
Discount rate	4 4	5 0

The mortality assumptions used were

	2012 years	2011 years
Longevity at age 65 for current pensioners		
Men	22 7	22 5
Women	24 2	24 1
Longevity at age 65 for future pensioners		
Men	24 9	24 8
Women	26 0	25 9

Analysis of net pension scheme assets and liabilities

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

	Value at 31 December 2012 £000	Expected long-term rate of return 2012 %	Value at 31 December 2011 £000	Expected long-term rate of return 2011 %
Market value of scheme assets				
Equities	6,146	7 30	5,532	7 20
UK Government fixed interest securities	10,389	3 30	9,399	3 20
Corporate bonds (inc overseas bonds)	3,153	4 30	3,122	4 90
Other	1,651	2 00	1,753	2 00
Total market value of scheme assets	21,339		19,806	
Present value of scheme liabilities	22,349		17,407	
(Deficit)/surplus in the scheme	(1,010)		2,399	
Restriction of surplus	-		(2,311)	
Limited (deficit)/surplus	(1,010)		88	
Related deferred tax	96		(11)	
Net pension scheme (liability)/asset	(914)		77	

Reconciliation of present value of scheme liabilities

	2012 £000	2011 £000
At 1 January	17,407	17,942
Current service cost	178	159
Interest cost	869	956
Actuarial loss/(gain) on liabilities due to experience	75	(389)
Actuarial loss on liabilities due to assumption changes	4,058	1,245
Benefits paid	(238)	(2,506)
At 31 December	22,349	17,407

Past service costs in 2011 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

	2012 £000	2011 £000
At 1 January	19,806	19,609
Expected return on scheme assets	909	1,072
Actuarial (loss)/gain on assets	(160)	470
Contributions paid by the employer	1,022	1,161
Benefits paid	(238)	(2,506)
At 31 December	21,339	19,806

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 £0 749m (2011 gain £1 542m)

Analysis of amounts charged to profit and loss account

	2012 £000	2011 £000
Investment income		
Expected return on pension scheme assets	909	1,072
Interest cost of pension scheme liabilities	(869)	(956)
Included in Investment Income	40	116
Pension cost		
Current service cost	178	159
Included in net operating expenses	178	159

Analysis of actuarial pension scheme loss after tax

	2012 £000	2011 £000
Actual return less expected return on pension scheme assets	(160)	470
Experience gains and losses arising on scheme liabilities	(75)	389
Effect of changes in demographic and financial assumptions	(4,058)	(1,245)
Restriction of surplus	2,311	(811)
Actuarial loss recognised	(1,982)	(1,197)
Deferred tax thereon	187	143
Pension scheme loss after tax	(1,795)	(1,054)

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 £6 4m (2011 loss of £4 6m)

Expected contributions

The Society's contributions expected to be paid to the scheme for the year ended 31 December 2013 are estimated to be £1 0m

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

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Present value of scheme liabilities	(22,349)	(17,407)	(17,942)	(36,682)	(31,031)
Fair value of assets	21,339	19,806	19,609	37,565	32,832
(Deficit)/surplus	(1,010)	2,399	1,667	883	1,801
Restriction of surplus	-	(2,311)	(1,500)	-	-
	(1,010)	88	167	883	1,801
Deferred tax	96	(11)	(19)	(93)	(189)
Net (deficit)/surplus	(914)	77	148	790	1,612
Experience (loss)/gain on liabilities	(75)	389	128	1,107	345
Experience (loss)/gain on assets	(160)	470	(19)	4,086	(8,376)

28 Contingent Liabilities

There are no contingent liabilities (2011 no contingent liabilities)

29. Operating Lease Commitments

The Society has operating lease commitments in respect of a former branch office, 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

	2012 £000	2011 £000
Land and buildings		
Expiring in less than 1 year	11	-
Expiring between 2 to 5 years	-	115
Expiring thereafter	10	10

The former branch office is sublet at the same cost as the head lease

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

		2012		2011	
		No of Units 000	Unit Value £000	No of Units 000	Unit Value £000
a	Group holdings				
	Units purchased	3	12	34	159
	Units sold	3,226	15,132	47	221
	Holding at 31 December	65,818	308,622	69,082	313,631
b	Society holdings				
	Units purchased	3	12	32	147
	Units sold	3,259	15,098	47	221
	Holding at 31 December	65,812	308,595	69,069	313,573

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 2012 was £3,759,913 (2011 – £3,702,370)

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

All directors, except one newly appointed executive director, 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 £29,000 (2011 £27,000)

As at the balance sheet date the balance due to the Society from the Reliance Fire and Accident Insurance Corporation Limited was £8,000 (2011 £9,000)