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Criterion Life Assurance Limited

Directors' Report

The directors present their annual report, together with the audited financial statements for the year ended 30 June 2004.

Principal activity

The principal activity of the Company is the transaction of ordinary long term insurance business within the United Kingdom and Europe.

Business Review

During the year new credit life insurance business was written amounting to £1.6m regular premiums and £0.8m new single premiums in the United Kingdom and £0.1m regular premiums and £19.8m new single premiums elsewhere in the European Union. The company continued to write business through the Transact Personal Pension, Executive Pension and Section 32 Bond (the "Transact business") all of which are marketed and administered by Integrated Financial Arrangements plc. New premiums totalling £105.6m were invested during the year, almost double the £54m written in 2002/3. Funds under management for the Transact business increased by £106.5m to £193.3m at 30 June 2004.

On 10 October 2003 the Company was acquired by Reliance Mutual Insurance Society Limited. During the year administrative systems and client servicing activities were transferred to Reliance Mutual's offices in Tunbridge Wells. The former premises in Petersfield have been vacated.

Transfer of Business and Future Sales

On 24 June 2004 the High Court sanctioned a Scheme under Part VII of the Financial Services and Markets Act 2000 for the transfer of all the Company's business with the exception of the Transact business to the parent company, Reliance Mutual Insurance Society Limited. The Scheme of Transfer took effect on 29 June 2004. Further details regarding the financial effects of the transfer are given in note 3 to the accounts.

It is intended to sell the company during the second part of 2004. Discussions are on-going but no contract has yet been exchanged.

Results

The results for the year are set out on pages 6 and 7.

An investigation of the long-term liabilities at 30 June 2004 has been made by the Actuary. Appropriate provision has been made for the long-term liabilities, which has been included in the financial statements.

The Company has not prepared consolidated financial statements for the year ended 30 June 2004 since it is a wholly owned subsidiary of Reliance Mutual Insurance Society Limited, which prepares consolidated financial statements. The Company's only subsidiary, Internet Life Assurance Limited was wound up during the year. It had been dormant for a number of years.

During preparation of these financial statements a material error was discovered in the prior year's financial statements. In those statements the long term business provision was understated by £1.017m and the net assets of the company were overstated by £0.975m. The directors have determined that it is appropriate to restate the prior year's figures in these financial statements. Full details are given in note 2 to the accounts.

Dividend

The directors recommend that no dividend be declared (2003: £Nil).

Directors and their interests

The directors who held office during the year or who were appointed subsequent to the year end are set out below. They and their families had no beneficial interest in the shares of the Company throughout the year.

W J Cain	appointed 10 October 2003
L M Etheridge	appointed 10 October 2003
W G Kilpatrick	resigned 10 October 2003
M Kuhn	resigned 10 October 2003
P E Oldham	appointed 10 October 2003, Chairman from 10 October 2003
R P J Randall	appointed 1 July 2004
C B Russell	appointed 10 October 2003
F B Sanjana	appointed 1 July 2004
A Scott	resigned 10 October 2003
M W Sullivan	Chairman to 10 October 2003, resigned 10 October 2003

According to the Register of Directors' Interests, no rights to subscribe for shares or options in the Company, or prior to 10 October 2003 its parent company, were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

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

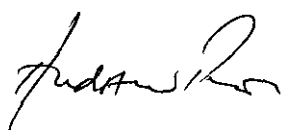
The directors confirm that the financial statements comply with these requirements.

The directors are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

On 10 October 2003, PricewaterhouseCoopers LLP were appointed auditors of the Company to replace KPMG who resigned as the Company's auditors.

By order of the board



A PRIOR
Secretary

The Great Hall
Mount Pleasant Road
TUNBRIDGE WELLS
KENT TN1 1RG

14 September 2004

INDEPENDENT AUDITORS REPORT
to the Members of
CRITERION LIFE ASSURANCE LIMITED

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes which have been prepared in accordance with the accounting policies set out in the Statement of Accounting Policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the directors' report.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company at 30 June 2004 and of the Company's result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge Street
LONDON SE1 9SY

14 September 2004

Profit and Loss Account: Technical Account – Long Term Business
For the year ended 30 June 2004

	Note	2004		2003 (Restated)	
		£000	£000	£000	£000
TECHNICAL INCOME					
Gross premiums written - continuing operations	4	105,628		54,013	
- discontinued operations	4	23,404		22,785	
Outward reinsurance premiums		(7,437)		(6,678)	
Earned premiums, net of reinsurance			121,595		70,120
Investment income	5	6,552		4,466	
Unrealised gains on investments		12,286		677	
			18,838		5,143
			140,433		75,263
CLAIMS INCURRED					
Claims paid - Gross amount		(18,085)		(11,607)	
- Reinsurers' share		560		297	
			(17,525)		(11,310)
Change in the provision for claims	20				
- Gross amount		69		(21)	
- Reinsurers' share		-		-	
			69		(21)
Claims incurred, net of reinsurance			(17,456)		(11,331)
CHANGE IN OTHER TECHNICAL PROVISIONS					
Long term business provision, net of reinsurance	20				
- Gross amount		39,708		(3,274)	
- Reinsurers' share		(2,643)		973	
			37,065		(2,301)
Provision for linked liabilities, net of reinsurance	20		(88,914)		(46,176)
			(51,849)		(48,477)
TECHNICAL CHARGES					
Net operating expenses	6	(18,048)		(15,317)	
Investment expenses and charges	9	(73)		-	
Tax attributable to the long term business	10	(58)		309	
Transfers from the fund for future appropriations	19	4,526		268	
Other technical charges	3	(60,745)		-	
			(74,398)		(14,740)
Balance on the technical account					
- continuing operations		-		-	
- discontinued operations		(3,270)		715	
			(3,270)		715

**Profit and Loss Account: Non-Technical Account
for the year ended 30 June 2004**

	Note	2004		2003 (Restated)	
		£000	£000	£000	£000
Balance on the technical account					
- continuing operations		-		-	
- discontinued operations		(3,270)		715	
			(3,270)		715
Effect of tax on technical account			58		(309)
Balance on the technical account, before tax			(3,212)		406
Investment income	5	215		237	
Investment expenses and charges	9	(106)		(20)	
Unrealised losses on investments		(31)		(98)	
Other charges, including value adjustments		(17)		(25)	
			61		94
(Loss)/Profit on ordinary activities before tax					
- continuing operations		-		-	
- discontinued operations		(3,151)		500	
			(3,151)		500
Tax on (loss)/profit on ordinary activities	10		(66)		309
Retained (losses)/profits for the year			(3,217)		809

The notes on pages 10 to 21 form part of these financial statements.

**Statement of Total Recognised Gains and Losses
for the year ended 30 June 2004**

	2004	2003 (Restated)
	£000	£000
Retained (losses)/profits for the year	(3,217)	809
Total recognised gains and losses relating to the year	(3,217)	809
Adjustment to correct prior year fundamental error (see note 2)	(975)	
Total gains and losses recognised since last annual report	(4,192)	

Balance Sheet
as at 30 June 2004

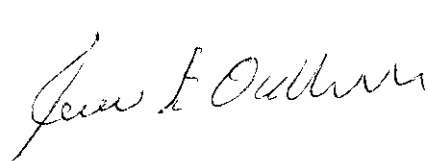
	Note	2004		2003 (Restated)	
		£000	£000	£000	£000
ASSETS					
Investments					
Land and buildings	11	-		855	
Investments in group undertakings	12	-		847	
Other financial investments	13	2,029		45,533	
			2,029		47,235
Assets held to cover linked liabilities	14		193,340		104,792
Reinsurers' share of technical provisions					
Long term business provisions	20		-		2,643
Debtors					
Debtors arising from direct insurance operations		-		1,996	
Other debtors	15	31		2,057	
			31		4,053
Other assets					
Cash at bank and in hand		-		214	
Other assets	2	-		42	
			-		256
Prepayments and accrued income					
Accrued interest and rent		-		169	
			-		169
Total assets			195,400		159,148

Balance Sheet
as at 30 June 2004

	Note	2004		2003 (Restated)	
		£000	£000	£000	£000
LIABILITIES					
Capital and reserves					
Called up share capital	16	3,325		3,325	
Share premium account	17	291		291	
Profit and loss account	17	(1,556)		1,661	
Shareholders' funds attributable to equity interests	18		2,060		5,277
Fund for future appropriations	19		-		4,526
Technical provisions					
Long term business provision	20	-		39,708	
Claims outstanding	20	-		69	
			-		39,777
Technical provision for linked liabilities	20		193,340		104,426
Creditors due within one year					
Creditors arising out of direct insurance operations		-		17	
Creditors arising out of reinsurance operations		-		2,451	
Other creditors including taxation and social security	21	-		2,485	
			-		4,953
Accruals and deferred income			-		189
Total liabilities			195,400		159,148

The notes on pages 10 to 21 form part of these financial statements.

These financial statements were approved by the board of directors on 14 September 2004 and were signed on its behalf by:



P E OLDHAM
Chairman



L M ETHERIDGE
Director

Notes to the Accounts at 30 June 2004

1. Accounting Policies

Basis of preparation

The accounts are prepared on the basis of the accounting policies set out below. The accounts have been prepared in compliance with the provisions relating to insurance companies of Section 255A of, and Schedule 9A to, the Companies Act 1985. In implementing the requirements the company has adopted a modified statutory solvency basis for determining technical provisions.

The accounts comply with applicable accounting standards. In addition, the company has complied with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998.

The Company has not prepared consolidated accounts as it is a wholly owned subsidiary of Reliance Mutual Insurance Society Limited which prepares consolidated accounts.

Change in accounts presentation

The directors have reviewed the presentation of figures in the accounts and have determined that a change is appropriate. In previous years provisions for additional mortality and expense costs on unit linked contracts, and the costs of compensation relating to reviews of pension and mortgage endowment contracts were presented in the balance sheet under Provisions for Other Risks and Charges. In the current year, these items have been included within the Long Term Business Provision. The reason for the change was to establish consistency of treatment between the Company and other group life insurance undertakings. Prior year figures have been restated and the effects of the change are set out in Note 23.

Cash Flow Statement

The company has taken advantage of the Financial Reporting Standard 1 – Cash Flow Statements exemption from producing a cash flow statement. This is because the company's parent produces consolidated financial statements in which the company is included and which are publicly available.

Premiums

Premiums, including reinsurance premiums, and considerations for annuities are accounted for when due for payment except for unit-linked premiums, which are accounted for when units are created.

Claims

Death claims are recognised on the basis of notifications received. Maturities and annuity payments are recognised when due for payment. Surrenders are accounted for at the earlier of the date when paid or when the policy ceases to be included within the long term business provision and/or the technical provision for linked liabilities. Reinsurance recoveries are credited to match the relevant gross amounts. Claims incurred and the provision for outstanding claims include the direct and indirect cost of settlement. Full provision is made for the estimated cost of claims notified but not settled at the balance sheet date and for claims incurred but not reported.

Investment return

Investment income and expenses include dividends, interest, rents, gains and losses on the realisation of investments and related expenses. Other than for the Transact business, 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. For the Transact business all investment income is included on the date of receipt. Dividends are shown net of tax credits or overseas taxation where these are irrecoverable.

Realised gains and losses on investments are calculated as the difference between net sale proceeds and original cost. Movements in unrealised gains and losses on investments represent the difference between the value at the balance sheet date and original cost, or, if assets have previously been revalued, the value at the previous balance sheet date; together with the reversal of unrealised gains and losses previously recognised on asset disposals in the period. Gains and losses on investments backing the long term business provision or the technical provision for linked liabilities are reported in the technical account. Other gains and losses are reported in the non-technical account.

Investments

Investment properties are valued by the directors at the balance sheet date on an open market sale value basis.

Shares in subsidiary undertakings are included at net asset value in the company's balance sheet.

Assets held to cover the technical provisions for linked liabilities are valued consistently with the method of valuation of the liabilities. Depending on the individual internal linked fund, assets are valued at either bid price less selling expenses or at offer price plus buying expenses on the last pricing date of the financial year. Accrued income on fixed interest securities is excluded and an allowance is made for deferred taxation on unrealised capital gains.

Other listed investments are valued at mid market price excluding accrued income on fixed interest holdings. Unit trust holdings are valued at bid price and mortgages, loans and deposits are stated at par.

Investment Properties

Under the Companies Act 1985, land and buildings are required to be depreciated over their expected useful economic lives. In respect of investment properties, this requirement conflicts with the generally accepted accounting principle set out in SSAP19, that no depreciation should be provided in respect of such investments. The directors consider that to depreciate investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted. Depreciation is only one of the factors reflected in the annual valuations and the amounts which might otherwise have been shown cannot reasonably be separately identified and quantified.

Long term business provision

The mathematical reserves are determined by the Actuary following the annual investigation of the long term business.

The long term business provision is determined by the Actuary and involves making modifications to the mathematical reserves calculated for solvency purposes as follows:

- any resilience, close-down and other contingency reserves required under the Financial Services Authority rules to demonstrate statutory solvency have been deducted;
- in cases where the valuation method makes use of a Zillmer adjustment to allow for deferral of acquisition costs, the effect of this is removed and deferred acquisition costs shown as an asset in the balance sheet.

Deferred acquisition costs

Deferred acquisition costs are assessed by the Actuary taking account of the costs incurred in the sale of existing contracts and the potential for recovery of those costs out of margins available over the remaining life of the policies concerned. No acquisition costs are deferred in respect of single premiums contracts. For regular premium contracts amounts that might have been deferred are immaterial and no costs have been deferred.

Fund for future appropriations

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

Taxation

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

Deferred taxation

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise and discounted to take into account the likely timing of payments and the pattern of the expected realisation of investments. Deferred tax balances are similarly discounted. Deferred tax is recognised in the profit and loss account for the period. Deferred tax in respect of unrealised gains on assets held to cover linked liabilities are included within assets held to cover linked liabilities.

Deferred tax assets are only recognised to the extent that there are foreseeable future profits or gains against which the losses giving rise to the deferred tax asset might be offset.

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.

2. Fundamental Error

During the preparation of these accounts a fundamental error was discovered in the prior year's figures. The long term business provision was understated and the net assets overstated. As a result, comparative figures for the year ended 30 June 2003 have been restated as follows:

	Retained profit for the year £000	Net Assets £000
As previously reported	1,784	6,252
Effect of correction to the long term business provision	(1,017)	(1,017)
Taxation adjustment	42	42
As restated	<u>809</u>	<u>5,277</u>

3. Transfer of Business

On 29 June 2004 the whole of the Company's business with the exception of:

- Policies, assets and liabilities relating to the Transact Personal Pension, the Transact Executive Pension and the Transact Section 32 Bond (the "Transact Business")
- Assets totalling £2,058,900 in respect of the Minimum Guarantee Fund that the company is required to maintain as an authorised insurer
- Assets totalling £1,000

was transferred to the company's parent undertaking, Reliance Mutual Insurance Society Limited. The transfer was effected by a Scheme under Part VII of the Financial Services and Markets Act 2000, approved by the High Court on 24 June 2004. No consideration was received for the transfer of business.

Effects on balance sheet

The transfer of business was represented by net assets

	£000	£000
Investments	43,583	
Assets held to cover linked liabilities	17,562	
Reinsurers share of technical provisions	3,279	
Debtors	2,989	
Other assets	255	
Prepayments and accrued income	168	
		67,836
Fund for future appropriations	(4,476)	
Technical Provisions	(57,351)	
Creditors	(3,485)	
Accruals and deferred income	(327)	
		(65,639)
Net transfer of assets		2,197

Effects on technical account

	Trading 2004 £000	Effect of Transfer £000	Total £000
Earned premium, net of reinsurance	121,595	-	121,595
Investment income	6,552	-	6,552
Unrealised gains	12,286	-	12,286
Claims paid - gross amount	(18,085)	-	(18,085)
- reinsurers share	560	-	560
Change in provision for claims			
- gross amount	(1,098)	1,167	69
- reinsurers share	-	-	-
Change in other technical provisions			
long term business provision			
- gross amount	973	38,735	39,708
- reinsurers share	636	(3,279)	(2,643)
technical provision for linked liabilities	(106,363)	17,449	(88,914)
Net operating expenses	(18,048)	-	(18,048)
Investment expenses and charges	(73)	-	(73)
Tax attributable to the long term business	(58)	-	(58)
Transfer to fund for future appropriations	50	4,476	4,526
Other technical charges	-	(60,745)	(60,745)
Balance on the technical account	(1,073)	(2,197)	(3,270)

4. Gross premiums earned

Gross premiums earned for continuing operations relates entirely to direct insurance of investment linked pensions business, written by single premiums in the United Kingdom. Gross premiums earned for discontinued operations all relates to direct insurance, and can be analysed as follows:

	2004 £000	2003 £000
Periodic premiums	2,757	1,586
Single premiums	20,647	21,199
	<hr/> 23,404 <hr/>	<hr/> 22,785 <hr/>
Premiums from non-participating contracts	23,232	22,624
Premiums from participating contracts	107	116
Premiums from investment linked contracts	65	45
	<hr/> 23,404 <hr/>	<hr/> 22,785 <hr/>
Premiums from life business	23,167	22,540
Premiums from pension business	195	200
Premiums from permanent health business	42	45
	<hr/> 23,404 <hr/>	<hr/> 22,785 <hr/>
United Kingdom	3,360	5,148
Germany	15,573	14,170
Finland	36	38
Italy	4,435	3,429
	<hr/> 23,404 <hr/>	<hr/> 22,785 <hr/>

New Business premiums

Annualised new business premiums can be analysed as follows:

	2004 £000	2003 £000
Individual premiums	128,000	53,888
	<hr/>	<hr/>
Periodic premiums	1,728	521
Single premiums	126,272	53,367
	<hr/> 128,000 <hr/>	<hr/> 53,888 <hr/>
Premiums from investment linked contracts	105,628	49,688
Premiums from non-linked contracts	22,372	4,200
	<hr/> 128,000 <hr/>	<hr/> 53,888 <hr/>
Premiums from life business	22,328	4,183
Premiums from pension business	105,672	49,688
Premiums from permanent health business	-	17
	<hr/> 128,000 <hr/>	<hr/> 53,888 <hr/>

5. **Investment Income**

	Technical Account		Non-Technical Account	
	2004	2003	2004	2003
	£000	£000	£000	£000
Investment income				
income from land and buildings	21	85	-	-
income from listed investments	4,952	3,983	209	224
income from other investments	214	235	6	13
Net gains on the realisation of investments	1,365	163	-	-
	<u>6,552</u>	<u>4,466</u>	<u>215</u>	<u>237</u>

6. **Net Operating Expenses**

Prior to 10 October 2003 management expenses were incurred by a then fellow subsidiary undertaking, Criterion Financial Services Limited, and charged to the Company on the basis of an allocation by reference to the type of costs incurred. Subsequent to 10 October 2003 direct costs, including staff costs, were paid by the Company. A charge was also made by the parent undertaking, Reliance Mutual Insurance Society Limited, in respect of additional management and administration activities undertaken by the parent undertaking. The administrative expenses include auditors' remuneration in respect of audit services of £145,000 (2003: £140,000), and in respect of non-audit services of nil (2003: nil).

The net operating expenses shown in the profit and loss account: technical account – long-term business comprise:

	2004	2003
	£000	Restated
		£000
Interest payable	-	16
Acquisition costs	-	100
Commission	18,253	12,378
Administrative expenses	1,715	2,236
Reinsurance commission and profit participation	(1,920)	-
Business development expenses	-	67
Other operating expenses	-	520
	<u>18,048</u>	<u>15,317</u>

7. **Employee Information**

The average number of persons employed by the company during the period from 10 October 2003 to 30 June 2004 was 18. Prior to 10 October 2003 the company had no employees.

	2004
	£000
Staff costs for the above totalled	
Wages and salaries	335
Social security costs	42
Other pension costs	16
Costs relating to termination of employment	301
	<u>694</u>

8. **Remuneration of directors**

Directors' emoluments excluding pension contributions totalled £16,900 (2003: £24,500). None of the directors received any emoluments from the Company in respect of the period after 10 October 2003.

9. **Investment expenses and charges**

	Technical Account		Non-Technical Account	
	2004	2003	2004	2003
	£000	£000	£000	£000
Investment expenses	73	-	-	-
Net losses on the realisation of investments	-	-	106	20
	<hr/>	<hr/>	<hr/>	<hr/>
	73	-	106	20
	<hr/>	<hr/>	<hr/>	<hr/>

10. **Taxation**

	2004	2003
	£000	(Restated)
		£000
(a) <u>Technical Account</u>		
UK Corporation tax at 20%	16	-
Prior year adjustment	-	(40)
Deferred taxation	42	(269)
	<hr/>	<hr/>
	58	(309)
	<hr/>	<hr/>
(b) <u>Non Technical Account</u>		
UK Corporation tax at 30%	8	-
Effect of tax charged to technical account	58	(309)
	<hr/>	<hr/>
	66	(309)
	<hr/>	<hr/>

Tax Reconciliation

(Loss)/profit on ordinary activities before tax	(3,151)	500
	<hr/>	<hr/>
Current tax at 30% (2003: 30%)	(945)	150
Effects of:		
Difference between the effective and standard tax rate on the balance on the technical account	969	-
Utilisation of tax losses	-	(150)
Prior year adjustment	-	(40)
Deferred taxation	42	(269)
	<hr/>	<hr/>
Tax on profit on ordinary activities	66	(309)
	<hr/>	<hr/>

There are no unrecognised deferred tax assets at the year end, following the transfer of business. In the prior year, deferred tax assets in respect of unrelieved tax losses were not recognised as, following the sale of the Company, it was regarded as less likely than not that there would be suitable taxable profits to offset.

11. **Land and Buildings**

	Market Value		Cost	
	2004 £000	2003 £000	2004 £000	2003 £000
Land and buildings	-	855	-	640

The land and building were disposed of during the year.

12. **Investments in group undertakings and participating interests**

	Market Value		Cost	
	2004 £000	2003 £000	2004 £000	2003 £000
Shares in group undertaking	-	847	-	106

The Company's only subsidiary undertaking at 30 June 2003 was Internet Life Assurance Company Limited which was wholly owned by the Company, and registered in England and Wales. Internet Life Assurance Company was placed in voluntary liquidation during the year. The winding up was completed prior to the 2004 year-end, and the net assets of the company were transferred to the Company.

13. **Other financial investments**

	Market Value		Cost	
	2004 £000	2003 £000	2004 £000	2003 £000
Shares and other variable-yield securities and units in unit trusts	-	23,246	-	22,787
Debt securities and other fixed-income Securities	-	19,639	-	19,385
Loans secured by mortgages	-	153	-	153
Loans secured by insurance policies	-	607	-	626
Deposits with credit institutions	2,029	1,888	2,029	1,888
	<u>2,029</u>	<u>45,533</u>	<u>2,029</u>	<u>44,839</u>

Included in the above were investments:

Listed on the UK Stock Exchange	-	27,696
Other listed investments	-	15,189
	<u>-</u>	<u>42,885</u>

14. **Assets held to cover linked liabilities**

The historic cost of investments included at market value in assets held to cover linked liabilities was £185,717,000 (2003: £122,914,000).

15. **Other debtors**

	2004 £000	2003 £000
Taxation	-	375
Due from parent undertaking	31	-
Other debtors	-	1,682
	<u>31</u>	<u>2,057</u>

16. **Called up share capital**

	2004 £000	2003 £000
Authorised		
10,000,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid		
3,325,000 ordinary shares of £1 each	<u>3,325</u>	<u>3,325</u>

17. **Reserves**

	Share Premium Account £000	Profit and loss account £000	Total £000
At the beginning of the year (restated)	291	1,661	1,952
Retained loss for the year	-	(3,217)	(3,217)
At end of the year	<u>291</u>	<u>(1,556)</u>	<u>(1,265)</u>

Distributable/Non-distributable reserves

	2004 £000	2003 (Restated) £000
Non-distributable reserves		
Share premium account	291	291
Profit and loss account	(1,556)	1,495
	<u>(1,265)</u>	<u>1,786</u>
Distributable reserves	-	166
	<u>(1,265)</u>	<u>1,952</u>
Total reserves		

18. **Reconciliation of Movements in Shareholders' Funds**

	2004 £000	2003 (Restated) £000
Retained (loss)/profit for the financial year	(3,217)	809
Opening shareholders' funds	<u>5,277</u>	<u>4,468</u>
Closing shareholders' funds	<u>2,060</u>	<u>5,277</u>

19. **Fund for future appropriations**

	2004 £000	2003 £000
At beginning of the year	4,526	4,794
Transfer to technical account – long-term business	(4,526)	(268)
At end of the year	-	4,526

20. **Technical provisions**

	Claims outstanding £000	Long term business provision £000	Technical provisions for linked liabilities £000
Gross amount			
At beginning of the year	69	39,708	104,426
Movement in the provision	(69)	(39,708)	88,914
At end of the year	-	-	193,340
Reinsurers' share			
At beginning of the year	-	(2,643)	-
Movement in the provision	-	2,643	-
At end of the year	-	-	-
Net technical provisions			
At beginning of the year	69	37,065	104,426
Net movement to the long-term business technical account	(69)	(37,065)	88,914
At end of the year	-	-	193,340

The principal assumptions underlying the calculation of the long term business provision in the prior year were:

- | | |
|-----------------------------------|--|
| a) | Interest rate |
| With profit assurances | 3.44% |
| Without profit assurances | 4.00% |
| With profit deferred annuities | 3.20% |
| Without profit deferred annuities | 4.00% |
| Without profit annuities | 4.00% |
| b) | |
| Mortality tables | A67/70 ultimate |
| Life assurance business | 100% of IM92/IF92 (Calendar year = 2020) for |
| General annuity business | immediate annuities and 90% for deferred annuities |
| Pensions business assurances | A67/70 ultimate |
| Pensions business annuities | 100% of PMA92/PFA92 (calendar year = 2020) for |
| | immediate annuities and 90% for deferred annuities |

21. **Other creditors including taxation and social security**

	2004	2003
	£000	£000
Amount due to fellow subsidiary undertaking	-	16
Amounts due to parent undertaking	-	19
Amounts due to subsidiary undertaking	-	847
Other creditors	-	1,603
	<u>-</u>	<u>2,485</u>

22. **Contingent liabilities – endowments and pension transfers and opt outs**

There are no contingent liabilities or capital commitments at 30 June 2004. However in the prior year, provisions were made in respect of endowment policies and for the rectification and review costs of pension transfers and opt outs from occupational schemes, which were included within the long term business provision. The relevant liabilities were transferred to the parent undertaking on 29 June 2004 (see note 3).

23. **Change in accounts presentation**

As described in Note 1, provisions for additional mortality and expense costs on unit linked contracts, and the costs of compensation relating to reviews of pension and mortgage endowment contracts were presented in the balance sheet under Provisions for Other Risks and Charges in prior years. In the current year, these items have been included within the Long Term Business Provision. Prior year figures have been restated as follows, after adjustment for the fundamental error (see note 2):

	2003	2003
	As Restated	Originally presented
	£000	£000
Effect on Balance Sheet		
Long term business provision	39,708	32,059
Provision for other risks and charges	-	7,649
	<u>39,708</u>	<u>39,708</u>
Effect on Technical Account		
Change in long term business provision, net of reinsurance	(2,301)	(1,156)
Net operating expenses	(15,317)	(16,462)
	<u>(17,618)</u>	<u>(17,618)</u>

24. **Transactions with related parties**

As the company is a wholly owned subsidiary undertaking it has, in accordance with Financial Reporting Standard 8 (Related Party Transactions), taken advantage of the exemption not to disclose transactions and year-end balances with either its parent undertaking or fellow subsidiaries.

During the period the company invested in The British Life Unit Trust, which is managed by Reliance Unit Managers Limited, a fellow member of the Reliance Mutual Group. Transactions and year-end balances of holdings in the Trust were:

	2004		2003	
	No. of Units 000	Unit Value £000	No. of Units 000	Unit Value £000
Units purchased	2,399	9,673	-	-
Transferred to Reliance Mutual Insurance Society	(2,399)	(9,565)	-	-
Holding at 30 June	-	-	-	-

There were no other material transactions between the Company and related parties during the year.

25. **Ultimate Parent Undertaking and Controlling Party**

The ultimate parent company is Reliance Mutual Insurance Society Limited (incorporated in England) which beneficially holds all the shares in the Company. The Society prepares group accounts, a copy of which is available from The Secretary, Reliance Mutual Insurance Society Limited, The Great Hall, Mount Pleasant Road, Tunbridge Wells, Kent TN1 1RG.