

Reliance Mutual Insurance Society Limited

**RELIANCE MUTUAL
INSURANCE SOCIETY LIMITED**

ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS 2008

Registered in England No: 491580

Annual Report and Group Financial Statements

31 December 2008

CONTENTS

	Page
Board of Directors, Senior Management, Auditors, Bankers and Registered office	2
Board of Directors and Remuneration Report	3 – 4
Chairman’s Statement	5 – 6
Report of the Directors	7 – 10
Corporate Governance	11 – 13
Reports to With Profits Policyholders	14 – 15
Bonus Declaration	16
Independent Auditors’ Report to the Members of Reliance Mutual Insurance Society Limited	17
Consolidated Profit and Loss Account	18
Balance Sheets	19 – 20
Notes to the Financial Statements	21 – 65

Reliance Mutual Insurance Society Limited

Directors

S Creedon FIA, ASA, MAAA, FSAI (Appointed 11 March 2008) Chairman (from 1 June 2008)
P E Oldham MA (Resigned 31 May 2008) Chairman (until 31 May 2008)
W J Cain BCom FCA
M Goodale BA FIA
R P J Randall BSc FIA
C B Russell FFA FTII
F B Sanjana BA FCII
N A Sherry ACII (Appointed 24 March 2009)

Senior Management

M Goodale BA FIA Chief Executive
T J Birse MA FIA Actuary
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 A Whatford BSc ACA Financial Controller

Auditors

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

Bankers

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

Registered and Administrative Office

The Great Hall
Mount Pleasant Road
Tunbridge Wells
Kent TN1 1RG

BOARD OF DIRECTORS

S CREEDON FIA, ASA, MAAA, FSAI (Age 57)
(Appointed 11/03/2008; Chairman 01/06/2008)

Chairman
Non-executive Director

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

W J CAIN BCom FCA (Age 70)
(Appointed 13/07/2000)

Senior Independent Director
Chairman of the Audit Committee
Non-executive Director

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

M GOODALE BA FIA (Age 53)
(Appointed 01/07/2006)

Chief Executive
Executive Director

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

R P J RANDALL BSc FIA (Age 59)
(Appointed 01/07/2004)

Non-executive Director

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

C B RUSSELL FFA, FTII (Age 69)
(Appointed 17/12/1992)

Non-executive Director

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

F B SANJANA BA FCII (Age 53)
(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.

N A SHERRY ACII (Age 51)
(Appointed 24/03/2009)

Non-executive Director

Nigel Sherry is our most recently appointed non-executive director. Nigel has over 30 years' experience in the financial services industry, including service as Director of Financial Planning at Pearl, Retail Sales Director at Prudential and most recently as Chief Operating Officer and acting Chief Executive of MGM Assurance.

REMUNERATION REPORT

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

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

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

Mr Goodale serves as non-executive director of the Association of Mutual Insurers. He receives no remuneration for this service.

Directors' Emoluments

		Salary/Fees	Benefits	Total	Total
		£	£	y/e 31.12.2008	y/e 31.12.2007
		£	£	£	£
P E Oldham	*Resigned 31 May 2008	11,250	-	11,250	27,000
S Creedon	*Appointed 11 March 2008	33,168	-	33,168	-
M Goodale	Chief Executive	193,341	29,108	222,449	186,715
W J Cain		20,502	-	20,502	16,002
R P J Randall		19,252	-	19,252	16,002
C B Russell		19,252	-	19,252	16,002
F B Sanjana		25,500	-	25,500	21,000
		<u>322,265</u>	<u>29,108</u>	<u>351,373</u>	<u>282,721</u>

M Goodale's salary of £193,341 included a bonus of £17,472 (2007: £4,235).

* Mr Oldham was Chairman until 31 May 2008. Mr Creedon was Chairman after this date.

Directors' Pension Information

	Accrued annual pension at 31.12.2008	Accrued annual pension at 31.12.2007
	£	£
Mr M Goodale	7,085	4,227

The transfer value at the year end was £81,383 (2007: £45,852).

Non executive directors do not receive pension benefits.

The accrued pension relates to the Society's defined benefit pension scheme.

CHAIRMAN'S STATEMENT

2008 has been a turbulent year for world markets and Reliance Mutual has not been able fully to escape the effect of these difficult times.

We have continued to concentrate on products for niche markets and have once again built on our acquisition strategy by the transfer of a further block of business from Family Assurance Friendly Society on 31 July 2008.

Despite the positive growth in these areas, external factors such as the 31% fall in the FTSE 100 index of equity values over the year, widening spreads on corporate bonds and falling interest rates have all impacted our results for the year.

At December 2008 our net assets have fallen to £1,458.3m, down 14% from 2007, insurance contract premium income is £89.2m, 22% up on 2007, and the fund for future appropriations is £81.1m, 34% down on 2007.

Our solvency ratio has fallen from 257% to 144%. The key factors affecting the Group's capital resource, and hence solvency, can be found in note 23.

Investment markets

The credit crunch and resulting worldwide financial turbulence of 2008, which is continuing into 2009, came as a huge surprise to most investors. Bankers, regulators and policy makers were not remotely prepared for the scale and intensity of the downturn, particularly following the bankruptcy of a large US investment bank in September 2008.

The year under review was characterised by immense and unpredictable levels of volatility in UK and other global equity markets, which for a number of weeks at the beginning of the fourth quarter, moved up and down by hundreds of points, often in just a few minutes.

The FTSE All-Share returns were the weakest since the 1970s, falling by 32.8% in nominal capital terms. U.S. equity returns were the weakest since the Great Depression, with the S&P 500 Index falling by 38.5%. In Europe it was even worse with the Dow Jones Euro Stoxx 50 index down by 44.4%. Government bonds were the best performing asset class, as investors sought relatively secure assets.

The widening spreads on corporate bonds have led us, amongst others, to increase reserves set aside for credit default risk. Further details can be found on page 31 on the effect of adjusting the assumptions used in these calculations.

Member bonuses

The levels of bonus which the Society is in a position to deliver to members have inevitably been reduced by investment market developments in most cases. Your Board has taken care to ensure that as far as practicable bonus changes have been made fairly and in accordance with the Society's established Principles and Practices of Financial Management. (See page 16).

New Business

During 2008 we concentrated new business activities on growing sales of our flagship product, an annuity for smokers, through independent financial advisers. As a result sales in 2008 hit record levels and were 49% above 2007. This increase was partly offset by the closure of the two largest credit life schemes to new business in the second half of the year.

Transfers of Business

During 2008 we continued to put our strategy of acquiring closed books of business into practice. On 31 July the tax exempt business of Family Assurance Friendly Society was transferred to the Society. Changes in the Finance Act 2008, which allowed the tax exempt status of business transferred from a friendly society to a mutual to be maintained, facilitated this transaction.

As the Society was already administering the business on our systems in Tunbridge Wells on behalf of Family the good level of service that members have experienced has been maintained.

Reliance Mutual Insurance Society Limited

Staff

As always, we are indebted to the support, dedication and hard work of all our staff during 2008. I would like to thank them for their continued contribution to the success of the Group.

Several changes have occurred in the senior management team during 2008 with the retirement of the Company Secretary, Andrew Prior, after 20 years service. The Society recruited Roger Eastwood to fill the role of Head of Risk and Corporate Governance and Chris Lerpiniere to fill the role of Head of Operations. These appointments recognised the need to strengthen the management of what is now a larger and more complex organisation.

Board

The Board remains committed to a high standard of corporate governance. We continued to apply the relevant principles and comply with the relevant provisions of the Annotated Combined Code on Corporate Governance for Mutual Insurers during 2008, except as set out in the corporate governance report. More detail on corporate governance can be found on page 11. The society is indebted to my predecessor chairman, Paul Oldham, who retired from the board in June, and also to Chris Russell who retires with effect from the annual general meeting. I am pleased to welcome as a new director Nigel Sherry, whose extensive experience will stand the Society in good stead.

The Future

We continue to be interested in opportunities that will add further to the scale of the organisation for the long-term benefit of members. Recent conditions may result in more acquisition opportunities for us as other insurers search for a safer home for their policyholders.

However, as a priority, we look to build up the strength of the Society to ensure that it can withstand further turbulence in the financial markets. The security and longer-term interests of our members continue to be the paramount consideration of the Board.

S CREEDON
Chairman
30 March 2009

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 December 2008.

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 18, shows a transfer from the fund for future appropriations of £41.4m (2007: transfer from the fund of £3.9m). The total assets of the group are £1,458.3m (2007: £1,704.8m).

Smoker annuity new business is 49% above 2007 driven by a more pro-active stance in the IFA marketplace during the year.

On 31 July 2008, under Section 86 of the Friendly Societies Act 1992, the tax exempt business of Family Assurance Friendly Society was transferred to the Society. The fair value of the assets acquired in this transaction were £14.4m, further details are set out in note 3.

Reserve strengthening during the year has impacted the transfer to the fund for future appropriations, particularly in relation to credit default risk provisions. The Board considered various internal analysis and external reports and concluded that increasing the credit default risk provision by £16.7m was appropriate.

The decline in world investment markets during 2008 has been the overriding factor in the decrease in the total assets of the Group. Unit linked funds alone have decreased in value by £224m (28%) over the year, despite the small inflow of funds from the Family transfer.

Important milestones took place during the year around the FSA's Treating Customers Fairly (TCF) initiative and by the end of the year the Group was confident that it had met requirements in this regard.

During the year a routine FSA ARROW visit took place. The Group is working with the FSA to further develop controls appropriate for an organisation of our size in these challenging times. The Group supports the findings of this review.

Operating Environment

The annuity market was fairly benign for the first three-quarters of 2008 although competition was tighter. The regulatory focus on the payment protection insurance market adversely affected credit life sales in the year.

Following the turmoil in the banking sector there was a knock on to the wider economy. The environment in the fourth quarter was an extremely challenging one in which to operate, with the Group (and the FSA) strongly focussing on controls, capital and risk management.

The embedding of TCF was an important priority for all firms during the year.

Principal Risks and Uncertainties

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

The Group has developed a framework for identifying the risks that it is exposed to and their impact on economic capital. This process is risk based and uses Individual Capital Assessment principles to manage our capital requirements and to ensure that we have the financial strength and capital adequacy to support the growth of the business and to meet the requirements of policyholders and regulators.

Reliance Mutual Insurance Society Limited

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

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

Future Outlook

With the economic environment remaining challenging, the Group will continue to focus on achieving a robust capital position going forward and will continue to seek growth through product sales to niche markets and selective acquisition of blocks of business to add further to the scale of the organisation for the long term benefit of policyholders.

Key Performance Indicators (“KPIs”)

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

New Business (APE)	<u>2008</u> £8.6m	<u>2007</u> £6.8m	Annual Premium Equivalent (APE) is new regular premiums plus 10% of single premiums (including amounts in respect of investment contracts)
Total Assets	£1,458.3m	£1,704.8m	
(Decrease)/increase in fund for future appropriations – including impact of acquisitions in 2007	(£41.4m)	£6.5m	See note 14 to the financial statements for further details
Fund for future appropriations	£81.1m	£122.5m	
Solvency ratio	144%	257%	

The Board have reviewed the KPIs above and compared them to the business plan. They highlight the extent to which the Group has been affected by the turbulence in the world economy during 2008. Further details of factors which have affected the Group’s capital resource, and hence solvency, can be found in note 23.

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.

Actuarial Valuation and Bonus Declaration

An investigation of the long-term liabilities at 31 December 2008 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 16.

Directors

The directors listed on page 2 held office throughout the year, unless otherwise stated. Being over age 65, Messrs Cain and Russell will retire at the AGM and Mr Cain offers himself for re-election. Messrs Randall and Goodale retire by rotation and, being eligible, offer themselves for re-election. Having been appointed since the last Annual General Meeting, Mr Sherry resigns and offers himself for election. All directors are members and policyholders of Reliance Mutual Insurance Society Limited. Messrs Goodale, Creedon and Russell have shareholdings in the subsidiary companies as nominees of the Society. No director has any beneficial interest in the subsidiary companies.

Liability Insurance

During the year the Society purchased and maintained liability insurance for its directors and officers as permitted by the Companies Act 1985.

Reliance Mutual Insurance Society Limited

Employees

The directors recognise the importance of employee involvement to the Society. This is maintained by effective communications, circulars and meetings. In addition, employees have been regularly consulted through the Joint Consultative Committee.

The Society continues to give full and fair consideration to applications for employment made by disabled people. Wherever possible it will continue the employment of, and provide appropriate training for, members of staff who become disabled.

Pensions

The Society has maintained a defined benefit scheme for employees for many years. See note 29 to the financial statements for further details.

Political and Charitable Contributions

No political contributions were made during the year. Charitable contributions totalled £610 (2007 - £410), £610 being donated to the "BBC Children in Need" charity. This donation represents a doubling by the Group of any contributions raised from staff fund raising initiatives.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Society and Group and the profit or loss of the Society and Group for that period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practices (UK Accounting Standards and Applicable Law). The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Society will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently in the preparation of the financial statements. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2008 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that 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 Society and 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 UK concerning 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 he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of the information.

Reliance Mutual Insurance Society Limited

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
30 March 2009

CORPORATE GOVERNANCE

Compliance with the Combined Code

The Board is committed to a high standard of corporate governance. As part of that commitment the Board has commissioned a review by the Group's newly appointed internal auditors in 2009 to ensure that the Group continues to develop its corporate governance to reflect good practice. The Board considers that it has applied the relevant principles and complied with the relevant provisions of the Annotated Combined Code for Mutual Insurers (the Code) throughout this reporting period unless the contrary is stated.

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

The Board

The Board's role is to determine:

- strategic principles and objectives, approve an annual budget and monitor performance
- risk appetite
- organisational structure
- pension and remuneration policies

The Board determines the basis to be used for the valuation of liabilities, declares annual and final bonuses, approves the annual report and group financial statements and the annual regulatory return to the Financial Services Authority (FSA). It also approves the Principles and Practices of Financial Management and the work carried out on the FSA's requirements for Treating Customers Fairly. It reserves to itself decisions on acquisitions and ensures there is an appropriate apportionment of responsibilities among the Chief Executive and senior managers to effectively manage the business. The Board has overall responsibility for the Group's system of internal control and ensures that the audit committee conducts an annual review of its effectiveness.

During the year the Board comprised the Chairman, one executive director and four non-executive directors (except during the period of induction prior to his election as Chairman, when Seamus Creedon served as a fifth non-executive director). The Code requires a strong presence on the Board of both executive and non-executive directors. Whilst the Chief Executive is the only executive director, members of management are required to attend meetings to provide information concerning key areas of the Group's operations. Details of each director are shown on page 3. The Board considers that each of its non-executive directors is independent in character and judgement. Although Mr Russell has served the Board for more than nine years and provides advice as a taxation consultant, the Board has determined that this does not affect his independence. The Chairman met the independence criteria upon appointment.

The Board usually has six regular meetings in the year as well as an annual strategy review. Other meetings are convened as required. In 2008 there were three additional meetings, including a strategy review 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 2008 was as follows:

Director	Board		Investment Committee		Nomination Committee		Remuneration Committee		Audit Committee	
	Meetings to attend	Meetings attended	Meetings to attend	Meetings attended	Meetings to attend	Meetings attended	Meetings to attend	Meetings attended	Meetings to attend	Meetings attended
S Creedon	7	7	-	-	2	2	2	2	-	-
W J Cain	9	8	-	-	3	3	2	2	3	3
M Goodale	9	9	7	7	3	3	2	2	-	-
R P J Randall	9	9	-	-	3	3	2	2	3	3
C B Russell	9	9	-	-	3	3	2	2	3	2
F B Sanjana	9	9	7	7	3	3	2	2	3	3
P E Oldham	5	5	-	-	2	2	-	-	-	-

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

Reliance Mutual Insurance Society Limited

The division of responsibilities between the Chairman and the Chief Executive is set out in writing and has been agreed by the Board. The Chairman has no commitments that impinge on his responsibilities as Chairman. The performance of the Chief Executive was appraised by the Chairman. The Chief Executive has no commitments that impinge on his responsibilities as Chief Executive.

The evaluation of the Board as a whole and of its committees, and the performance appraisals of the Chairman and non-executive directors have been carried-out. Appropriate actions to ensure that individual contributions, and those of the Board and its committees, remain effective are underway.

All directors appointed by the Board must stand for reappointment at the Annual General Meeting (AGM) following their appointment. Directors who are 65 years of age or over must stand for reappointment at each AGM. All directors are subject to reappointment at intervals of no more than three years. A specimen letter of appointment for non-executive directors is available on request and on the Group's website.

Board Committees

Audit Committee

The directors who served on the committee during the year were Messrs W J Cain (chairman), C B Russell, R P J Randall and F B Sanjana. The committee meets at least twice 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 and keeps under review the effectiveness of internal controls, risk management systems and internal and external auditing. As part of this review, the provider of internal audit services has been changed to BDO Stoy Hayward LLP with effect from 1 April 2009. The new internal auditors are able to offer more breadth in the services that they will be providing. It also reviews the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. During 2008 the external auditors provided specific short-term taxation advice. 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.

Nomination Committee

The whole Board acts as the nomination committee for appointments to the Board. The committee's terms of reference are to:

- annually review the size and composition of the Board
- identify suitable candidates for Board appointments
- plan for the orderly succession of new directors to the Board
- determine the membership and chairmanship of the audit and remuneration committees

Investment Committee

Mr Sanjana is chairman of this committee. The other director who is a member of this committee is Mr Goodale. There are other permanent members of this committee, including the Investment Manager. The committee has formulated principles to address the company's role as an institutional shareholder.

Remuneration Committee

The whole Board acts as the remuneration committee and as such does not have specific terms of reference. 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 Company successfully, and has carefully considered the position related to similar organisations in the Company's sector and also the increased time commitment and extended responsibilities within the modern role of director. Remuneration packages do not include any long-term incentive schemes. There are no notice periods in excess of one year for executive directors.

As recommended by the Code, a resolution will be put to the AGM providing members with an opportunity to vote regarding the Remuneration Report. The result of this vote will be used to advise future remuneration committee decisions.

Member Relations

The Board is committed to developing member relations. The member relations strategy is available on request and on the member information section of the Group's website.

In 2008, all voting members received at least 20 working days notice of the Annual General Meeting. All directors and senior managers attended the AGM and facilities were provided afterwards to enable members to question them further and meet other members. Not all information recommended by the Code was provided with the AGM notice. The information was detailed in the notice and then sent to all members upon request. The Board considered this a more cost effective use of resources.

In order to encourage greater engagement with members, each notice of the 2008 Annual General Meeting included a proxy voting form and a freepost address for its return. Over two thousand members took the opportunity of voting in this manner. An additional section on the reverse of the proxy voting form sought feedback from members on the activities of the Society. Two hundred and twenty members responded and their requests were answered and details of the process were provided to the Board. In 2009 the Annual General Meeting will be held at the Charing Cross Hotel in Central London, with the aim of making it more accessible to a membership that is spread nationwide.

Under the Code, the Senior Independent Director is required to provide an alternative point of contact to the Chairman and Chief Executive for members who have concerns that cannot be addressed through normal channels. Mr Cain is the Senior Independent Director and can be written to at the Group's registered office or contacted on wcain@reliancemutual.co.uk.

The external auditor has not reported on the corporate governance statement and hence the Code was not complied with in this respect in 2008. The Board does not consider such a report to be a cost effective use of resources.

DIRECTORS' REPORT TO WITH PROFITS POLICYHOLDERS

Reliance Mutual maintains a set of Principles and Practices of Financial Management (the PPFM) that set out the way in which the with profits business of the Company will be run. The PPFM was amended with effect from 1 December 2008. There were no changes to the Principles. Changes made to the Practices had four main effects:

- Previously somewhat inconsistent approaches had been adopted to the level of prudence in actuarial bases used for the regulatory valuation of liabilities and for investment management and determining bonuses. A consistent approach now exists where mortality, interest and expense assumptions for the regulatory valuation are all more prudent than the more realistic assumptions used for investment management and determining bonuses.
- In With Profits Sub Fund 4 (WPSF4), policies have a range of optional retirement dates. The PPFM now provides for investment management and bonus determination calculations to be based on a more realistic view of how policyholders exercise this option, rather than the cautious approach required by the regulatory valuation of liabilities.
- The Practices for managing final bonuses for WPSF6 were amended to change the approach to implementing any necessary reductions in final bonus between different classes of policy. It was considered that the previous approach could be detrimental to certain types of policy.
- The Practices for managing the unitised with profits business in WPSF6 were amended to permit the adoption of a broader based market value adjustment calculation method than originally envisaged when the business was transferred.

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

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

The practices used in setting the bonus rates are set out in the PPFM. These practices were followed during 2008 as follows:

- In February 2008 annual bonus rates were declared for all the funds. These were set at the same rates as in the previous year. These applied for the year 2007.
- For RM WPSF final bonus rates were set in February and applied from 1 March. A review of the augmentations to final bonus rates took place during September, and resulted in no changes to final bonus rates being necessary. Bonus rates were monitored during the year as economic conditions changed. It was necessary to reduce final bonus rates from 1 October; as a result of the change the majority of policy payouts reduced by the maximum 10% permitted by the PPFM.
- For the with profit sub fund WPSF2, final bonus rates were set in February based upon results at the end of 2007 and applied to claims from 1 March. Bonus rates were monitored during the year as economic conditions changed. It was necessary to reduce final bonus rates from 1 October; as a result of the change policy payouts reduced by 1.3%.
- For the with profit sub funds WPSF3 and WPSF4, final bonus rates were set in February based upon results at the end of 2007 and applied to claims from 1 March. Bonus rates were monitored during the year as economic conditions changed, but no changes in rates were necessary.

Reliance Mutual Insurance Society Limited

- For the with profit sub fund WPSF5, final bonus rates were set in February based upon results at the end of 2007 and applied to claims from 1 March. Bonus rates were monitored during the year as economic conditions changed. The PPFM does not impose any smoothing of final bonuses on this sub fund, replicating the practice prior to transfer to Reliance Mutual. Consequently final bonus rates were reduced on 1 October and again on 24 October. These reductions reduced policy payouts by a total of 11.3% from the values at 1 March.
- The financial position of the with profit sub fund WPSF6 necessitated a review of non-discretionary benefits with effect from 1 February. All non guaranteed bonuses were halved with the exception of the special final bonus added as part of the benefit restructure that took place at the time the business was transferred to Reliance Mutual. This change in bonuses was in accordance with the PPFM and aimed to stabilise the financial position of the fund for the future, in the absence of extreme market events. As WPSF6 has no exposure to equity markets, no further changes were made to bonus rates during the year.

Following the change in Practices relating to unitised with profits business in WPSF6 described above, a market value reduction factor of 5% of claim values was applied to all non-contractual claims during December.

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

Report of the With Profits Actuary to with profits policyholders

To all with-profits policyholders

I have considered the annual report from Reliance Mutual to with profits policyholders and the actions and decisions relating to with profits policyholders made by the company during 2008.

It is my opinion that:

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

R J Houlston FIA
With Profits Actuary

Reliance Mutual Insurance Society Limited

BONUS DECLARATION

as at 31 December 2008

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 2008. 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 2009 and 31 December 2009. Current rates of interim bonus are equal to the rates declared for the year ended 31 December 2008.

A final bonus may be paid on claims arising by death, maturity or vesting under most classes of with profits policies. Full details of the rates may be obtained on application to the Society.

Rates of interim bonus and final bonus are not guaranteed and may be altered at any time.

Reliance Mutual With Profits Sub Fund

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

	Bonus Rate (%)
Reliance ordinary branch whole life insurances and endowment insurances	2.00
Reliance industrial branch with profits policies	1.75
Burslem weekly tables with profits policies	1.67
Reliance industrial branch mortuary bonus policies without recurring endowments	1.50
Reliance industrial branch mortuary bonus with recurring endowments	1.40

With Profits Sub Fund 2

55% of the sum of all premiums paid since the last declaration, as at 31 December 2007, 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 Limited for the year ended 31 December 2008 which comprise the Group Profit and Loss Account, the Group and Society Balance Sheets, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Society's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Society has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Corporate Governance Report and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 December 2008 and of the Group's result for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Hay's Galleria
One Hay's Lane
LONDON SE1 2RD
30 March 2009

Reliance Mutual Insurance Society Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2008

Technical Account – Long Term Business

	Notes	2008 £000	2007 £000
TECHNICAL INCOME			
Gross premiums written	5	89,203	72,865
Outward reinsurance premiums		(14,854)	(12,736)
Earned premiums, net of reinsurance		74,349	60,129
Investment income	6	70,543	96,418
Other technical income, net of reinsurance	7	18,306	306,123
		163,198	462,670
CLAIMS INCURRED, NET OF REINSURANCE			
Claims paid		(118,851)	(106,137)
- gross amount		(118,851)	(106,137)
- reinsurers' share		15,102	11,806
- net of reinsurance		(103,749)	(94,331)
Change in provision for claims		587	(1,912)
- gross amount		587	(1,912)
- reinsurer's share		13	56
- net of reinsurance		600	(1,856)
Total claims incurred		(103,149)	(96,187)
CHANGE IN OTHER TECHNICAL PROVISIONS, NET OF REINSURANCE			
Long term business provision		(31,665)	(194,203)
- gross amount	21	(31,665)	(194,203)
- reinsurers' share	21	(7,183)	17,934
- net of reinsurance		(38,848)	(176,269)
Technical provision for linked liabilities, net of reinsurance	22	215,070	(162,340)
		176,222	(338,609)
Net operating expenses	9	(8,431)	(16,357)
Investment expenses and charges	10	(974)	(875)
Unrealised losses on investments	6	(280,729)	(14,003)
Other technical charges, net of reinsurance	7	(660)	(470)
Tax attributable to long term business	13	15,122	(1,244)
Actuarial (losses)/gains on pension scheme	29	(2,040)	1,139
Transfer from the fund for future appropriations	14	41,441	3,936
		(236,271)	(27,874)
BALANCE on the long term business technical account		-	-

There are no recognised gains or losses other than those shown above.

The notes on pages 21 to 65 form an integral part of these financial statements.

The impact of acquisitions and transfers of business in the year on earned premiums, net of reinsurance is £nil (2007: £4,958,000). (See note 4).

Reliance Mutual Insurance Society Limited

BALANCE SHEETS

At 31 December 2008

Assets	Notes	2008		2007	
		Group £000	Society £000	Group £000	Society £000
INTANGIBLE ASSETS					
Goodwill	18	(390)	-	(429)	-
INVESTMENTS					
Land and Buildings	15	10,163	10,163	17,353	17,353
Shares in group undertakings	16	-	1,217	-	1,279
Other financial investments	17	815,633	815,147	819,052	817,486
		<u>825,796</u>	<u>826,527</u>	<u>836,405</u>	<u>836,118</u>
PRESENT VALUE OF ACQUIRED IN FORCE BUSINESS	18	<u>3,374</u>	<u>3,100</u>	<u>3,795</u>	<u>3,511</u>
ASSETS HELD TO COVER LINKED LIABILITIES	19	<u>576,024</u>	<u>576,024</u>	<u>800,337</u>	<u>800,337</u>
REINSURERS' SHARE OF TECHNICAL PROVISIONS					
Long term business provision	20	27,822	27,822	35,005	35,005
Claims outstanding	21	651	230	538	217
		<u>28,473</u>	<u>28,052</u>	<u>35,543</u>	<u>35,222</u>
DEBTORS					
Debtors arising out of direct insurance operations		280	280	729	729
Debtors arising out of reinsurance operations		19	19	239	239
Amounts owed by group undertakings		-	157	-	1,025
Other debtors		3,424	3,157	1,517	1,201
		<u>3,723</u>	<u>3,613</u>	<u>2,485</u>	<u>3,194</u>
OTHER ASSETS					
Tangible assets	24	566	565	297	287
Cash at bank and in hand		3,307	2,601	4,020	3,291
		<u>3,873</u>	<u>3,166</u>	<u>4,317</u>	<u>3,578</u>
PREPAYMENTS AND ACCRUED INCOME					
Accrued interest and rent		15,120	15,109	18,397	18,391
Deferred acquisition costs	25	538	538	709	709
Other prepayments and accrued income		157	157	74	53
		<u>15,815</u>	<u>15,804</u>	<u>19,180</u>	<u>19,153</u>
TOTAL ASSETS EXCLUDING PENSION SCHEME ASSET		<u>1,456,688</u>	<u>1,456,286</u>	<u>1,701,633</u>	<u>1,701,113</u>
DEFINED BENEFIT PENSION ASSET	29	<u>1,612</u>	<u>1,612</u>	<u>3,178</u>	<u>3,178</u>
TOTAL ASSETS INCLUDING PENSION SCHEME ASSET		<u>1,458,300</u>	<u>1,457,898</u>	<u>1,704,811</u>	<u>1,704,291</u>

Reliance Mutual Insurance Society Limited

BALANCE SHEETS

At 31 December 2008

Liabilities	Notes	2008		2007	
		Group £000	Society £000	Group £000	Society £000
FUND FOR FUTURE APPROPRIATIONS	14	81,100	81,216	122,541	122,664
TECHNICAL PROVISIONS					
Long term business provision	20	769,688	769,688	739,890	739,890
Claims outstanding	21	12,410	11,924	13,162	12,789
		782,098	781,612	753,052	752,679
TECHNICAL PROVISIONS FOR LINKED LIABILITIES	22	576,024	576,024	800,337	800,337
PROVISIONS FOR OTHER RISKS AND CHARGES	27	487	487	8,461	7,811
DEPOSITS RECEIVED FROM REINSURERS	1a	12,754	12,754	14,157	14,157
CREDITORS					
Creditors arising out of direct insurance operations		1,324	1,324	1,140	1,140
Creditors arising out of reinsurance operations		619	619	72	72
Amounts owed to group undertakings		-	8	-	586
Other creditors including taxation and social security	28	1,407	1,367	2,220	2,034
		3,350	3,318	3,432	3,832
ACCRUALS AND DEFERRED INCOME		2,487	2,487	2,831	2,811
TOTAL LIABILITIES		1,458,300	1,457,898	1,704,811	1,704,291

The notes to pages 21 to 65 form an integral part of these financial statements.

The financial statements were approved by the Board of directors on 30 March 2009 and were signed on its behalf by

S Creedon
Chairman

M Goodale
Director

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of presentation

The financial statements are prepared on a going concern basis (see note 1b) and under the historical convention as modified by the revaluation of investments, and on the basis of the accounting policies set out below. The Group financial statements have been prepared in compliance with the provisions relating to insurance groups of Section 255A of, and Schedule 9A to, the Companies Act 1985. In implementing these provisions the 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 1985 relating to depreciation and an explanation of the departure is given in the accounting policy on "Investments – Land and buildings" below.

1a. Significant accounting policies

Basis of consolidation

These financial statements consolidate the results of the parent Society with those of The British Life Office Limited, Reliance Fire and Accident Insurance Corporation Limited, Reliance Unit Managers Limited, Reliance Administration Services Limited, FS Management Limited and Reliance Pension Scheme Trustee Limited. As permitted by Section 230 of the Companies Act 1985, no profit and loss account of the parent Society is presented.

RM Life Assurance Limited was also consolidated until the business was transferred to RMIS under a Part VII transfer arrangement in July 2007 when its business formed part of the parent company's accounts. University Life Assurance Society was acquired on 31 May 2007. The results of this company were consolidated for the period from acquisition until the business was transferred to RMIS under a Part VII transfer arrangement in July 2007 when it formed part of the parent company's accounts. Both RM Life Assurance Limited and University Life Assurance Limited were wound up on 31 July 2007.

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 except for unit-linked premiums, which are accounted for when units are created.

Fee income from investment contracts

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

Claims

Claims paid and reinsurance recoveries relate to insurance and participating investment contracts. Death claims are recognised on the basis of notifications received. Maturities and annuity payments are recognised when due for payment. Surrenders are accounted for at the earlier of the date when paid or when the policy ceases to be included within the long term business provision or the technical provision for linked liabilities. Reinsurance recoveries are credited to match the relevant claim incurred. Claims payable include the related internal and external claims handling costs. Full provision is made for the estimated cost of claims notified but not settled at the balance sheet date and for claims incurred but not reported.

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

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

Shares in group undertakings

Shares in group undertakings are included at current value in the Society's balance sheet.

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 1985 is to depreciate all properties. This requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that, as these properties were held for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt 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 and re-evaluates this at every reporting date.

a) Shares and other variable yield securities and units in unit trusts, debt securities and other fixed income securities – at fair value through profit and loss

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

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

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

b) Derivative Financial Instruments

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

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

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

c) Loans and Receivables

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

Tangible assets and depreciation

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

Computer Hardware	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 is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events.

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

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

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

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

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

Long term business provision

The long-term business provision is determined on the basis of recognised actuarial methods and consistently with the FSA Rules (specifically those applying to the calculation of mathematical reserves contained in Chapter 1.2 of the Insurance Prudential Sourcebook) and the Association of British Insurers Statement of Recommended Practice on Accounting for Insurance Business (December 2005 revised December 2006). In determining the long-term business provision all relevant guidance from the Board of Actuarial Standards, and in particular Guidance Notes 7 and 44, has been followed.

Full details of the methods, assumptions and sensitivities are given in note 20.

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.

Deposits received from reinsurers

Deposits received from reinsurers have been reclassified as they were previously included within creditors.

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. The 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 technical account.

A Group company, FS Management Limited, operated a defined contribution scheme with costs recognised in the Profit and Loss Account in the period to which they relate.

Goodwill

Goodwill 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”.

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 the impact of the current economic conditions are detailed in the Directors Report on pages 7 and 8. The current exceptionally volatile economic environment gives rise to unusual uncertainty as to the future level of equity markets, defaults on corporate bonds, interest rates and other economic factors. 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.

The Board has the expectation that the Society and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they adopt the going concern basis in preparing these financial statements.

2. Management of financial risk

Outline of Fund Structure

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

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

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

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

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

Financial Risk

The Group is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts (together referred to as "liabilities to policyholders") as they fall due. The most important components of this financial risk are market risk, credit risk and liquidity risk. In addition, further risks arise from the difference between estimated and actual cost of future insurance and investment contract liabilities, which are covered in more detail in note 20.

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

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

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

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

All Investment Committee minutes are presented to the Board.

A principal technique used by the Investment Committee is to ensure that assets are matched to the liabilities arising from insurance contracts by reference to the type of benefits payable to policyholders. Within RM WPSF, separate portfolios of assets are maintained for non-profit annuities, each unit-linked

fund, guaranteed income bonds and other contracts. Each of the sub funds WPSF2 to WPSF6 has its own separately identified assets which are managed to match the obligations of the insurance and investment contracts in those sub funds.

The Group does not use hedge accounting.

The Group has not changed its processes for managing risks from previous periods. However, the Group has increased its focus on controls, capital management and risk management in times of heightened risk and volatility in the investment markets.

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 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, Actuary and Financial Controller daily.

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 protect the fund.

Interest rate risk in relation to guaranteed annuity reserves differs depending on the sub fund involved. The largest liabilities relate to business in RM WPSF and WPSF6 which is protected to a certain level by a portfolio of interest rate swaptions. This level of protection is not perfect and some residual risk on guaranteed annuity reserves remains. It is this residual risk that has significantly impacted the values of liabilities in WPSF6. As part of a risk appetite review, management is considering the optimal protection profile for these risks.

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 £63.0m (2007: £57.5m), financial investments would also decrease in value by £66.3m (2007: £49.8m) resulting in a decrease in the FFA of £3.3m (2007: increase of £7.7m).

A decrease of 20% in interest rates would increase the value of the long term business provision by £80.4m (2007: £74.2m), financial investments would also increase in value by £84.8m (2007: £60.6m) resulting in an increase in the FFA of £4.4m (2007: decrease of £13.6m).

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 was not material at 31 December 2008 or 2007.

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, changed in equity values influence this source of surplus.

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

The impact of equity price falls in the with profits funds would be to reduce the value of with profits policies via asset shares. The PPFM provides the mechanism for automatic management actions to adjust bonus rates (see page 14).

2008 has seen a period of high volatility in equity prices. This has contributed to the significant decline in the Group's fund for future appropriation in the year. The volatility has continued in 2009 and the Group is exposed to this. Management are considering possible ways of protecting the Group against the impact of such declines.

An increase of 10% in equity prices would increase the value of the long term business provision by £0.9m (2007: increase of £1.2m), financial investments would also increase in value by £6.9m (2007: £9.2m) resulting in an increase in the FFA of £6.0m (2007: £8.0m).

A decrease of 10% would decrease the value of the long term business provision by £0.0m (2007: decrease of £1.1m) and decrease the values of financial assets by £6.9m (2007: £9.2m) resulting in a decrease in the FFA of £6.9m (2007: £8.1m).

iv) Property Price risk

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

b) Credit risk

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

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

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

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

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

	2008 £000	2007 £000
Non-linked assets subject to credit risk		
Sovereign Debt	238,506	267,669
AAA	38,992	83,321
AA	188,299	137,074
A	180,249	131,930
BBB and below or not rated	109,930	124,484
	<u>755,976</u>	<u>744,478</u>
Total assets bearing credit risk		
Derivatives financial instruments	20,704	6,298
Debt securities	665,214	666,133
Loans & receivables	2,079	2,176
Assets arising from reinsurance contracts held	27,279	35,670
Deposits with credit institutions	40,700	34,201
	<u>755,976</u>	<u>744,478</u>
Total assets bearing credit risk		

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.

Market turbulence during 2008, especially in relation to banks, has resulted in ongoing changes in credit ratings of many organisations. No financial assets are past due or impaired at the reporting date.

The Society has increased the credit default margins in the valuation basis used to determine policyholder liabilities as at 31 December 2008 (see note 20). The impact can be seen in the movement in capital resources in note 23 (c).

A further increase of 33% in credit default margins would increase liabilities and decrease the FFA by £10.2m.

A decrease of 33% in credit default margins would decrease liabilities and increase the FFA by £10.7m.

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 £2.75m 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 £1.0m (2007: £1.0m), all policies include the right to surrender or transfer the policy on demand, with the surrender or transfer value calculation method being determined by the policy conditions. The majority of the contracts are unit linked, where the liabilities are matched by assets held in internal linked funds. All linked assets are readily marketable except for direct properties held in the property funds. In the property funds, the Society has the right to defer payment of surrender or transfer values by up to six months. This right was not exercised at any time in the current or prior year.

The investment contracts that are not unit linked have a maximum outstanding duration of five years and are backed by fixed term deposits or short dated fixed interest securities matching the outstanding duration. The Society is exposed to requests for early surrender of such policies when the backing assets are illiquid. The maximum exposure, were all contracts to surrender at the balance sheet date is £10.7m (2007: £11.0m).

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

	On demand	Others up to 1 year	Between 1 and 5 years	>5 years	Total
	£000	£000	£000	£000	£000
At 31 December 2008					
Financial liabilities under non-profit investment contracts	361,815	582	-	-	362,397
Creditors	1,437	19,184	3,766	10,360	34,747
Financial liabilities at amortised cost	363,252	19,766	3,766	10,360	397,144
Financial liabilities under with profits investment contracts included in long term business provision	11,057	-	-	-	11,057
	<u>374,309</u>	<u>19,766</u>	<u>3,766</u>	<u>10,360</u>	<u>408,201</u>

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

Reliance Mutual Insurance Society Limited

	On demand	Others up to 1 year	Between 1 and 5 years	>5 years	Total
	£000	£000	£000	£000	£000
At 31 December 2007					
Financial liabilities under non-profit investment contracts	515,829	811	-	-	516,640
Creditors	1,921	5,853	4,314	14,288	26,376
Financial liabilities at amortised cost	517,750	6,664	4,314	14,288	543,016
Financial liabilities under with profits investment contracts included in long term business provision	11,174	-	-	-	11,174
	528,924	6,664	4,314	14,288	554,190

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.

3. Transfers

Family Assurance Friendly Society

On 31 July 2008, part of the business of Family Assurance Friendly Society relating to tax exempt policies was transferred to Reliance Mutual Insurance Society Limited by a Scheme under Section 86 of the Friendly Societies Act 1992. The scheme was sanctioned by the Financial Services Authority. No consideration was paid for the transfer of business. At the time of the transfer the with profits policies were converted to unit linked policies.

Effects on Group and Society balance sheet:

	£000
Assets held to cover linked liabilities	14,398
Technical provision of linked liabilities	(14,398)
Net transfer of assets	-

4. Analysis of Profit and Loss Account

FRS 6 "Acquisitions and mergers" requires the post acquisition results of business acquired in the financial year to be disclosed separately for each material acquisition and in aggregate for all others. The Group profit and loss account includes the results of the transferred business from Family Assurance Friendly Society from 31 July 2008 to 31 December 2008.

As the investments were integrated into existing funds it is not possible to extract the investment return relating to this transfer.

The impact of this transfer on the 2008 results which can be extracted from the financial reporting system is set out below:

	£000
Premiums	-
Claims, net of reinsurance	(234)
Net operating expenses	(10)

In addition, the change in technical provisions relating to this business, since the date of transfer, has resulted in a charge to the long term business technical account of £0.036m. The change in technical provisions in 2007 relating to transfers of business led to a change to the long term business technical account of £13.6m.

5. 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.

	2008 £000	2007 £000
Gross premiums written comprise:		
Direct insurance	89,203	72,865
	<hr/>	<hr/>
Gross direct premiums written in respect of insurance contracts and with profits investment contracts		
Periodic premiums	10,658	10,959
Single premiums	78,545	61,906
	<hr/>	<hr/>
	89,203	72,865
	<hr/>	<hr/>
Life insurance contracts	12,178	16,782
Pensions	76,918	55,982
Sickness and disability contracts	107	101
	<hr/>	<hr/>
	89,203	72,865
	<hr/>	<hr/>
Unit linked insurance contracts	8,572	8,368
Non linked contracts	80,631	64,497
	<hr/>	<hr/>
	89,203	72,865
	<hr/>	<hr/>
Geographical analysis		
United Kingdom	84,955	67,674
Germany	1,569	1,976
Finland	23	22
Italy	2,656	3,193
	<hr/>	<hr/>
	89,203	72,865
	<hr/>	<hr/>

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

In addition to the premiums disclosed above in relation to insurance contracts and investment contracts with dpf, the following premiums were received in relation to investment contracts. These are accounted for using deposit accounting as additions to investment contract liabilities in the balance sheet (see note 22) rather than as premiums in the long term technical account.

Reliance Mutual Insurance Society Limited

	2008 £000	2007 £000
Unit linked investment contracts		
Life	163	55
Pensions	11,910	10,858
	<u>12,073</u>	<u>10,913</u>

There were no premiums on non linked investment contracts.

New Business Figures

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

	2008 £000	2007 £000
Periodic premiums	61	21
Single premiums	78,545	61,906
	<u>78,606</u>	<u>61,927</u>
Life insurance contracts	2,494	6,524
Pension contracts	76,112	55,403
	<u>78,606</u>	<u>61,927</u>
Unit linked insurance contracts	780	-
Non linked contracts	77,826	61,927
	<u>78,606</u>	<u>61,927</u>
Geographical analysis		
United Kingdom	74,487	56,886
Germany	1,463	1,848
Italy	2,656	3,193
	<u>78,606</u>	<u>61,927</u>

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

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

New business in relation to investment contracts comprise:

	2008 £000	2007 £000
Unit linked investment contracts		
Pensions – single premiums	6,893	5,810
	<u>6,893</u>	<u>5,810</u>

Reliance Mutual Insurance Society Limited

Reinsurance Balance

The reinsurance balance amounted to a charge to the long term business technical account at 31 December 2008 of £6.698m (2007: credit of £17.777m).

6. Investment Return

	2008 £000	2007 £000
Investment income:		
Income from other financial investments		
- Loans and receivables interest income	131	149
	<u>131</u>	<u>149</u>
Total interest income on financial assets not at fair value through profit or loss	131	149
Income from financial assets at fair value through profit or loss	64,213	62,468
	<u>64,344</u>	<u>62,617</u>
Income from land and buildings	1,111	772
Net return on pension scheme (note 29)	556	1,139
Net gains on the realisation of investments	4,532	31,890
	<u>70,543</u>	<u>96,418</u>
Investment expenses and charges:		
Investment management expenses	(974)	(875)
	<u>(974)</u>	<u>(875)</u>
Total investment management expenses	(974)	(875)
Net unrealised losses on investments	<u>(280,729)</u>	<u>(14,003)</u>
Total investment return	<u>(211,160)</u>	<u>81,540</u>
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	(290,603)	18,262
- Assets held for trading	14,406	(375)
	<u>(276,197)</u>	<u>17,887</u>
Total net realised and unrealised gains/(losses) included in investment return	<u>(276,197)</u>	<u>17,887</u>

Interest expense relating to financial liabilities at amortised cost in respect of non participating investment contracts is included in the Technical account – Long-term business under the heading “Change in other technical provisions”. See notes 21 and 22.

Reliance Mutual Insurance Society Limited

7. 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 Ltd, Reliance Administration Services Ltd, FS Management Ltd and Reliance Unit Managers Ltd, which do not carry on long-term business, and in 2007 the net items of income and expenditure from the non-technical accounts of RM Life Assurance Ltd (RMLA) and University Life Assurance Society (ULAS). The effect of the transfers of the long term business from Family Assurance Friendly Society in 2008 and Hearts of Oak Insurance Company Limited in 2007 is included in other technical income.

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

	2008 £000	2007 £000
a) <u>Other technical income</u>		
Fee income from investment contracts	3,429	3,397
The Reliance Fire & Accident Insurance Corporation Ltd	8	-
Reliance Unit Managers Ltd	365	412
Reliance Administration Services Ltd	106	63
Transfer from Family Assurance Friendly Society	14,398	-
Transfer from Hearts of Oak Insurance Company Ltd	-	301,360
RMLA non technical income and expenses	-	891
	<u>18,306</u>	<u>306,123</u>
b) <u>Other technical charges</u>		
The Reliance Fire & Accident Insurance Corporation Ltd	-	3
FS Management Limited	249	6
ULAS non technical income and expenses	-	20
Amortisation of present value of acquired in-force business	411	441
	<u>660</u>	<u>470</u>

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

8. Bonuses

The aggregate of the bonuses added to policies in the year was £11.862m (2007: £11.372m).

9. Net Operating Expenses

	2008 £000	2007 £000
Acquisition costs	5,136	7,764
Change in deferred acquisition costs	171	(168)
Administrative expenses	3,348	9,478
Reinsurance commissions	(224)	(717)
	<u>8,431</u>	<u>16,357</u>

Total commission for direct insurance accounted for by the Group during the year amounted to £4.230m (2007:£6.796m).

Administrative expenses in 2007 included costs in relation to the acquisition of Hearts of Oak Insurance Company Limited that have not been repeated in 2008. Within this was £3.4m relating to an onerous lease and £1.0m of redundancy costs. £0.8m of this onerous lease provision was released in 2008 following the surrender of the lease.

	2008 £000	2007 £000
Included within the administration expenses are:		
Audit services:		
Fees payable to PricewaterhouseCoopers LLP for audit of the parent company's consolidated annual accounts	297	464
Under provision for previous year	62	-
Non-audit services:		
Fees payable to PricewaterhouseCoopers LLP and its associates for other services:		
The audit of the company's subsidiaries, pursuant to legislation	47	109
Other services pursuant to legislation, including the audit of the regulatory return	57	54
	<u>463</u>	<u>627</u>
Fees payable to PricewaterhouseCoopers LLP in respect of Reliance Pension Scheme:		
Audit	<u>6</u>	<u>6</u>
Depreciation of tangible assets	371	177
Operating lease rentals	188	188

In 2008 and 2007 the Society paid the audit fees for the whole group.

Fees payable to PricewaterhouseCoopers LLP for non-audit services in relation of taxation advice in 2008 was £0.063m.

10. Investment Expenses and Charges

	2008 £000	2007 £000
Investment Expenses	<u>974</u>	<u>875</u>

11. Employee Information

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

	2008 No.	2007 No.
Management	8	6
Administration	84	81
	<u>92</u>	<u>87</u>
 Staff costs for the above totalled:	 2008	 2007
	£000	£000
Wages and Salaries	3,279	2,976
Social Security costs	320	292
Other Pension costs		
- Defined Benefit (note 29)	1,105	953
- Defined contribution	10	26
	<u>4,714</u>	<u>4,247</u>

In addition to the staff costs outlined above, further redundancy related costs of £0.06m (2007: £1.005m) were incurred in the year. These primarily related to reorganisations required following the transfer of business from Hearts of Oak Insurance Company Limited. The redundancy costs incurred in 2008 related to social security costs that had not been foreseen in 2007.

The Defined Contribution pension costs relate to the pension payments made in respect of employees of FS Management Limited, the company owned since 1 August 2007 following the transfer of business from Hearts of Oak Insurance Company Limited.

12. Directors' Emoluments

	2008 £000	2007 £000
Total directors' emoluments	351	283
Highest paid director (included in above figures)	222	187
	<u> </u>	<u> </u>

In 2008 and 2007 retirement benefits accrued to the highest paid director in respect of qualifying service in the group's defined benefit pension scheme. The total accrued pension at the balance sheet date was £7,085 (2007: £4,227). See the Remuneration Report on page 4 for more detail on directors' emoluments.

13. Taxation

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

	2008 £000	2007 £000
UK Corporation Tax at 20% (2007 – 20%)	88	1,569
Adjustments in respect of prior periods	63	(530)
	<u>151</u>	<u>1,039</u>
Deferred taxation:		
within technical provision for linked liabilities	(9,660)	(2,319)
FRS17 Deferred tax	(183)	285
movement in discount	964	(9)
other deferred taxation (see note 26)	(6,394)	2,248
	<u>(15,273)</u>	<u>205</u>
Total deferred tax	(15,273)	205
Tax on profit on ordinary activities	<u>(15,122)</u>	<u>1,244</u>

UK corporation tax in the technical account has been calculated at rates at 20% (2007: 20%) in accordance with the rates applicable to the long-term business.

14. Fund for Future Appropriations

	2008		2007	
	Group £000	Society £000	Group £000	Society £000
At 1 January as previously reported	122,541	122,664	108,729	108,747
Prior year adjustment – adoption of FRS26	-	-	7,221	5,218
	<u>122,541</u>	<u>122,664</u>	<u>115,950</u>	<u>113,965</u>
At 1 January as restated	122,541	122,664	115,950	113,965
On acquisition (note 3)	-	-	10,527	-
Transfer (to)/from profit and loss account	(41,441)	(41,448)	(3,936)	8,699
	<u>(41,441)</u>	<u>(41,448)</u>	<u>6,591</u>	<u>8,699</u>
Movement in the year	(41,441)	(41,448)	6,591	8,699
	<u>81,100</u>	<u>81,216</u>	<u>122,541</u>	<u>122,664</u>
At 31 December	81,100	81,216	122,541	122,664

15. Land and Buildings – Group and Society

	2008 £000	2007 £000
Freehold	8,868	15,623
Long leasehold	1,295	1,730
	<u>10,163</u>	<u>17,353</u>

The cost of land and buildings was £12.958m (2007: £17.958m).

Land and buildings are valued on a rolling program throughout the year, however due to large market fluctuations in property prices all valuations were reviewed as at 31 December 2008.

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

16. Group Undertakings

At the balance sheet date the Society held 100% of the issued share capital of the following companies, with the exception of The Reliance Fire & Accident Insurance Corporation Limited where the Society held 99.99% of the issued share capital.

	2008		2007	
	Net Asset Value £000	Cost £000	Net Asset Value £000	Cost £000
The British Life Office Limited	1	30,000	1	30,000
The Reliance Fire & Accident Insurance Corporation Limited	416	1,000	408	1,000
Reliance Unit Managers Limited	466	50	491	50
Reliance Pension Scheme Trustee Limited	-	-	-	-
Reliance Administration Services Limited	256	100	213	100
FS Management Limited	78	50	166	50
	<u>1,217</u>	<u>31,200</u>	<u>1,279</u>	<u>31,200</u>

Group undertakings have been included at net asset value in the Society's balance sheet.

Details of group undertakings are:

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

17. **Other Financial Investments**

a) Group Balance Sheet

	2008		2007	
	Market Value	Cost	Market Value	Cost
	£000	£000	£000	£000
Financial assets at fair value through profit or loss				
Designated upon initial recognition	752,150	791,384	776,377	753,778
Derivative financial instruments – held for trading	20,704	6,673	6,298	6,673
	<u>772,854</u>	<u>798,057</u>	<u>782,675</u>	<u>760,451</u>
Loans and receivables at amortised cost	42,779	42,779	36,377	36,377
	<u>42,779</u>	<u>42,779</u>	<u>36,377</u>	<u>36,377</u>
Total financial assets	<u>815,633</u>	<u>840,836</u>	<u>819,052</u>	<u>796,828</u>

Included in balance sheet as follows:

	2008		2007	
	Market Value	Cost	Market Value	Cost
	£000	£000	£000	£000
Shares and other variable yield securities and units in unit trusts	86,936	86,478	110,244	79,905
Debt securities and other fixed income securities	665,214	704,906	666,133	673,873
Derivative financial instruments	20,704	6,673	6,298	6,673
Loans secured by mortgages	318	318	327	327
Other loans	1,761	1,761	1,849	1,849
Deposits with credit institutions	40,700	40,700	34,201	34,201
	<u>815,633</u>	<u>840,836</u>	<u>819,052</u>	<u>796,828</u>

b) Society Balance Sheet

	2008		2007	
	Market Value	Cost	Market Value	Cost
	£000	£000	£000	£000
Financial assets at fair value through profit or loss				
Designated upon initial recognition	751,678	790,913	775,848	753,249
Derivative financial instruments – held for trading	20,704	6,673	6,298	6,673
	<u>772,382</u>	<u>797,586</u>	<u>782,146</u>	<u>759,922</u>
Loans and receivables at amortised cost	42,765	42,765	35,340	35,340
	<u>42,765</u>	<u>42,765</u>	<u>35,340</u>	<u>35,340</u>
Total financial assets	<u>815,147</u>	<u>840,351</u>	<u>817,486</u>	<u>795,262</u>

Reliance Mutual Insurance Society Limited

Included in balance sheet as follows:

	2008		2007	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Shares and other variable yield securities and units in unit trusts	86,901	86,432	110,158	79,817
Debt securities and other fixed income securities	664,777	704,481	665,690	673,432
Derivative financial instrument	20,704	6,673	6,298	6,673
Loans secured by mortgages	318	318	327	327
Other loans	1,761	1,761	1,849	1,849
Deposits with credit institutions	40,686	40,686	33,164	33,164
	815,147	840,351	817,486	795,262

c) Analysis of market values of other financial investments

	2008		2007	
	Group £000	Society £000	Group £000	Society £000
Shares and other variable yield securities and units in unit trusts				
Listed on a recognised investment exchange	60,672	60,672	68,832	68,832
Other listed investments	26,264	26,229	41,412	41,326
	86,936	86,901	110,244	110,158
Debt securities and other fixed income securities				
Listed on a recognised investment exchange	665,214	664,777	662,658	662,215
Other listed investments	-	-	3,475	3,475
	665,214	664,777	666,133	665,690

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 £1.653m (2007: £1.723m).

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 £20.7m (2007: £6.3m) that cost £6.7m (2007: £6.7m).

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

Movements in fair value arise due to actual and perceived future movements in interest rates and the FTSE 100 Total Return Index and are reflected in the long term business technical account. Fair value gains in the year amounted to £14.4m (2007: losses of £0.4m)

18. Goodwill and Present Value of Acquired in force Business

<u>Group</u>	2008		2007	
	Goodwill	Present value of Acquired Business	Goodwill	Present Value of Acquired Business
<u>Cost</u>	£000	£000	£000	£000
At 1 January	(585)	5,370	(585)	5,370
At 31 December	(585)	5,370	(585)	5,370
<u>Amortisation</u>				
At 1 January	156	(1,575)	117	(968)
Amortisation during year	39	(421)	39	(607)
At 31 December	195	(1,996)	156	(1,575)
Net book value at 31 December	(390)	3,374	(429)	3,795
Net book value at 1 January	(429)	3,795	(468)	4,402

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.

Reliance Mutual Insurance Society Limited

Society

	2008		2007	
	Goodwill £000	Present value of Acquired Business £000	Goodwill £000	Present Value of Acquired Business £000
<u>Cost</u>				
At 1 January	-	4,920	-	4,920
At 31 December	-	4,920	-	4,920
<u>Amortisation</u>				
At 1 January	-	(1,409)	-	(968)
Amortisation during year	-	(411)	-	(441)
At 31 December	-	(1,820)	-	(1,409)
Net book value at 31 December	-	3,100	-	3,511
Net book value at 1 January	-	3,511	-	3,952

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.

19. Assets held to cover linked liabilities

a. Group Balance Sheet

	2008		2007	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Assets held to cover linked liabilities	576,024	609,606	800,337	609,613

b. Society Balance Sheet

	2008		2007	
	Market Value £000	Cost £000	Market Value £000	Cost £000
Assets held to cover linked liabilities	576,024	609,606	800,337	609,613

These financial assets are classified as fair value through profit or loss.

20. Long Term Business Provision

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

	2008		2007	
	Group £000	Society £000	Group £000	Society £000
Gross amount				
Mathematical reserves, before bonus	779,765	779,765	746,079	746,079
Cost of bonus added at year end	1,140	1,140	1,319	1,319
Zillmer adjustment	41	41	57	57
Closure reserve	(1,050)	(1,050)	(1,125)	(1,125)
FRS26 adjustment – sterling reserves	(10,208)	(10,208)	(6,440)	(6,440)
Long term business provision	769,688	769,688	739,890	739,890
Reinsurance				
Mathematical reserves, before bonus	27,822	27,822	35,005	35,005
Long term business provision	27,822	27,822	35,005	35,005
Net amounts				
Mathematical reserves, before bonus	751,943	751,943	711,074	711,074
Cost of bonus added at year end	1,140	1,140	1,319	1,319
Zillmer adjustment	41	41	57	57
Closure reserve	(1,050)	(1,050)	(1,125)	(1,125)
FRS26 adjustment – sterling reserves	(10,208)	(10,208)	(6,440)	(6,440)
Long term business provision	741,866	741,866	704,885	704,885

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

Reliance Mutual Insurance Society Limited

from the actuarial profession adjusted, in the case of smoker annuities, in the light of expected future experience.

Valuation basis

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

Interest Rates

Product group:	Interest Rate 2008	Interest Rate 2007
Reliance Mutual With Profits Sub Fund		
With profits life assurances	1.85%	2.25%
Guaranteed income and growth bonds	6.52%	4.08%
Other without profits life assurances	2.60%	3.00%
Life fund annuities in payment	4.48%	4.08%
Pension deferred annuities and assurances	3.25%	3.75%
Pension annuities in payment	5.60%	5.10%
With Profits Sub Fund 4		
Deferred annuities - series 1 regular premium and series 2	2.75%	2.75%
Deferred annuities - series 1 single premium	2.25%	2.25%
Annuities in payment and deferred annuities after vesting	3.90%	4.50%
With Profits Sub Fund 5		
Life annuities in payment	2.48%	3.68%
Pension annuities in payment	3.10%	4.60%
With Profits Sub Fund 6		
Deferred annuities – with profits group 3	5.10%	4.45%
Deferred annuities – other with profits	3.00%	3.50%
Annuities in payment	5.20%	4.50%

Mortality tables

Product group:	Mortality table 2008	Mortality table 2007
All ordinary branch assurances in all sub funds	A92	A92
All industrial branch assurances	ELT 15	ELT 15
Smoker annuities in payment (see note)	150% PA92	150% PA92
Non-smoker annuities in payment	67.5% PA92	67.5% PA92
Aggregate annuities in payment (RM WPSF)	115% PCA92	115% PCA92
Aggregate annuities in payment, and deferred annuities post-vesting (WPSF4)	Male: 114% PMA92 Female: 95% PFA92	Male: 114% PMA92 Female: 95% PFA92
Aggregate annuities in payment (WPSF5)	80% PCA92	80% PCA92
Aggregate annuities in payment (WPSF6)	85% PCA92	85% PCA92
Deferred annuities pre-vesting (WPSF4)	80% A92	80% A92
Deferred annuities pre-vesting (WPSF6)	75% A92	75% A92

Reliance Mutual Insurance Society Limited

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

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

Notes:

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

Non-smoker annuities: the mortality multiplier reduced to 77.5% at age 85 and 87.5% at age 120.

Aggregate annuities in WPSF4 (males only): 114% of the table was used for ages up to 60. The percentage then reduced linearly to 83.1% at ages 85 and above.

Mortality improvements

Product group:	Mortality Improvements 2008		Mortality Improvements 2007	
	Male	Female	Male	Female
Smoker annuities in payment	75% MC	75% MC	75% MC	75% MC
minimum	1.3125%	1.0%	1.3125%	1.0%
Non-smoker annuities in payment	75% MC	75% MC	75% MC	75% MC
minimum	1.3125%	1.0%	1.3125%	1.0%
Aggregate annuities in payment (RM WPSF)	100% MC	75% MC	100% MC	75% MC
minimum	1.75%	1.3125%	1.75%	1.3125%
Aggregate annuities in payment, and deferred annuities post-vesting (WPSF4)	100% MC	75% MC	100% MC	100% MC
minimum	1.75%	1.3125%	1.75%	1.3125%
Aggregate annuities in payment (WPSF5)	100% MC	75% MC	100% MC	75% MC
minimum	1.75%	1.3125%	1.75%	1.3125%
Aggregate annuities in payment (WPSF6)	100% MC	75% MC	100% MC	75% MC
minimum	1.75%	1.3125%	1.75%	1.3125%

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

Margin for credit default risk

Bond Rating:	2008 basis points	2007 basis points
Sovereign debt	nil	nil
AAA	30	10
AA	60	20
A	90	30
BBB	120	70

Reliance Mutual Insurance Society Limited

Expenses

Product Group:	Renewal Exps – premium paying £		Renewal Exps – paid up £		Claim Expenses £	
	2008	2007	2008	2007	2008	2007
Reliance Mutual With Profits Sub Fund						
OB life assurances except as specified below	24.00	23.00	8.40	8.05	112.00	102.00
Single premium unit linked investment bonds			18.00	17.25	112.00	102.00
Linked and non-linked guaranteed income bonds (annual rollovers)			24.00	23.00	11.20	10.20
Linked and non-linked guaranteed income bonds (3- and 5- yearly rollovers)			24.00	23.00	44.80	30.60
Linked and non-linked guaranteed growth bonds (annual rollovers)			12.00	11.50	11.20	10.20
Linked and non-linked guaranteed growth bonds (3- and 5- yearly rollovers)			12.00	11.50	44.80	30.60
All annuities in payment			24.00	23.00		
All pension deferred annuities and assurances	24.00	23.00	8.40	8.05	308.00	280.50
All industrial branch business	12.00	11.50	0.24	0.23	16.80	15.30
With Profits Sub Fund 4						
Annuities in payment			36.08	35.19		
Deferred annuities	36.08	35.19	12.63	12.32	447.44	436.06
Assurances	36.08	35.19	12.63	12.32	216.50	211.11
With Profits Sub Fund 5 – all policies, expressed as % SA	0.3%	0.3%				
With Profits Sub Fund 6						
All life assurances	31.65	30.83	11.08	10.79	78.31	76.29
Annuities in payment			31.65	30.83		
All pension deferred annuities	31.65	30.83	11.08	10.79	215.36	209.78

Options and Guarantees

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

1. Guaranteed annuity rate options

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

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

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

Technical provisions include £37.2m (2007: £29.7m) in respect of the additional costs of the guarantees. The technical provisions have been established with prudential margins for adverse deviation from the central assumptions. To the extent that economic conditions move adversely, or policyholders elect to withdraw benefits at times when the guarantees are more valuable, the Society is exposed to risk. This is because the protection provided by the asset portfolio that backs the technical provisions is not complete.

2. Maturity and surrender value guarantees

Various unit linked policies have minimum guaranteed values either at maturity or on surrender at various dates. An additional provision of £810,000 (2007: £371,000) 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 £137,000 (2007: £142,000) are held within the long-term business provision in respect of these options.

4. Guaranteed cash options

These exist on various deferred annuity contracts in WPSF4. The option is only valuable if interest rates are in excess of 8% p.a. With improving mortality this rate increases. All affected policies are with profits, and no specific provision is held for this option bearing in mind current interest rates. Any change in interest rates that would cause these options to be financially significant would reduce the financial significance of the guaranteed annuity rate options described above by a greater amount.

Sensitivities

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

A 20% increase in the valuation rates of interest would reduce the long term business provision by £63.0m.

A reduction of 10% in the expense assumptions for all contracts would reduce the long term business provision by £4.3m.

A change in the mortality improvement factors for annuities from the medium impact to the high impact projection combined with a reduction in the minimum improvement underpin, would increase the group long-term business provision by £12.3m.

An increase of 33% in credit default margins would increase the long term business provision by £10.2m.

Reliance Mutual Insurance Society Limited

21. 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. <u>Group Balance Sheet</u>				
Gross technical provisions				
Balance at 1 January 2008	725,499	14,391	739,890	13,162
Payments made to policyholders of, and fees deducted from, investment contracts	-	(1,867)	(1,867)	-
Movement for the year	33,497	(1,832)	31,665	(752)
Balance at 31 December 2008	758,996	10,692	769,688	12,410
Reinsurers' Share				
Balance at 1 January 2008	35,005	-	35,005	538
Movement for the year	(7,183)	-	(7,183)	113
Balance at 31 December 2008	27,822	-	27,822	651
Net technical provisions				
Balance at 31 December 2008	731,174	10,692	741,866	11,759
Balance at 1 January 2008	690,494	14,391	704,885	12,624

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.

Reliance Mutual Insurance Society Limited

	Long Term Business Provision – Insurance & Investment with dpf contracts £000	Long Term Business Provision – Investment contracts £000	Total Long Term Business Provision £000	Claims Outstanding £000
b. Society Balance Sheet				
Gross technical provisions				
Balance at 1 January 2008	725,499	14,391	739,890	12,789
Payments made to policyholders of, and fees deducted from, investment contracts	-	(1,867)	(1,867)	-
Movement for the year	33,497	(1,832)	31,665	(865)
Balance at 31 December 2008	758,996	10,692	769,688	11,924
Reinsurers' Share				
Balance at 1 January 2008	35,005	-	35,005	217
Movement for the year	(7,183)	-	(7,183)	13
Balance at 31 December 2008	27,822	-	27,822	230
Net technical provisions				
Balance at 31 December 2008	731,174	10,692	741,866	11,694
Balance at 1 January 2008	690,494	14,391	704,885	12,572

With profits investment contracts

Included within the long-term business provision are amounts of £11.1m (2007: £11.2m) relating to liabilities under with profits investment contracts, where there is no transfer of significant insurance risk. These investment contracts contain a discretionary participatory feature which entitles the holder to receive, as a supplement to the guaranteed benefits, additional benefits or bonuses through participation in the surplus arising from the assets held in the relevant investment with profits fund. These supplemental discretionary participatory returns are subject to the discretion of the Group. The Group has the discretion within the constraints of the terms and conditions of the instruments and UK regulation, to allocate the surplus to the contract holders.

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

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

22. Technical provisions for linked liabilities

Group

	Unit linked investment contracts		Unit linked insurance contracts		Total	
	2008	2007	2008	2007	2008	2007
	£000	£000	£000	£000	£000	£000
At 1 January	502,249	478,885	298,088	173,487	800,337	652,372
Deposits received from policyholders under investment contracts	12,073	10,913	-	-	12,073	10,913
Corporate acquisitions	-	-	-	186	-	186
Payments made to policyholders of, and fees deducted from, investment contracts	(21,316)	(25,474)	-	-	(21,316)	(25,474)
Change in technical provision as shown in the technical account	(141,301)	37,925	(73,769)	124,415	(215,070)	162,340
At 31 December	351,705	502,249	224,319	298,088	576,024	800,337

The change in technical provisions shown above includes the effect of the transfer of business from Family Assurance Friendly Society (see note 3).

Society

	Unit linked investment contracts		Unit linked insurance contracts		Total	
	2008	2007	2008	2007	2008	2007
	£000	£000	£000	£000	£000	£000
At 1 January	502,249	427,552	298,088	170,206	800,337	597,758
Deposits received from policyholders under investment contracts	12,073	9,818	-	-	12,073	9,818
Payments made to policyholders of, and fees deducted from, investment contracts	(21,316)	(24,401)	-	-	(21,316)	(24,041)
Change in technical provision as shown in the technical account	(141,301)	89,280	(73,769)	127,882	(215,070)	217,162
At 31 December	351,705	502,249	224,319	298,088	576,024	800,337

The change in technical provisions shown above includes the effect of the transfer of business from Family Assurance Friendly Society (see note 3).

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 £351.7m for both the Group and Society, (2007: £502.2m) which is equivalent to the amount payable under the contract, based on the current fund value together with an allowance for any excess of future expenses over charges where appropriate.

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

23. Capital and Liabilities – Regulatory Capital Position

a) Capital Management

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

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

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

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.

Reliance Mutual Insurance Society Limited

b) Capital Statement

2008

	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	61,712	8,735	10,768	1	81,216	(116)	81,100
Adjustments on to regulated basis							
Positive valuation differences	-	-	-	-	-	-	-
Negative valuation differences	(11,217)	-	-	-	(11,217)	-	(11,217)
Inadmissible assets	(6,933)	-	-	-	(6,933)	116	(6,817)
Total available capital resource	<u>43,562</u>	<u>8,735</u>	<u>10,768</u>	<u>1</u>	<u>63,066</u>	<u>-</u>	<u>63,066</u>

The capital statements show a decrease in available capital resources of £44.7m 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 £000	Subsidiary Companies £000	Group Total £000
With profits insurance contracts	14,868	23,080	119,875	82,855	240,678	-	240,678
With profits investment contracts	264	-	-	10,793	11,057	-	11,057
Non profit insurance contracts	410,265	18,877	50,244	53	479,439	-	479,439
Non profit investment contracts	10,692	-	-	-	10,692	-	10,692
	<u>436,089</u>	<u>41,957</u>	<u>170,119</u>	<u>93,701</u>	<u>741,866</u>	<u>-</u>	<u>741,866</u>
Unit linked insurance contracts	224,192	127	-	-	224,319	-	224,319
Unit linked investment contracts	351,705	-	-	-	351,705	-	351,705
Total technical liabilities net of reinsurance	<u>1,011,986</u>	<u>42,084</u>	<u>170,119</u>	<u>93,701</u>	<u>1,317,890</u>	<u>-</u>	<u>1,317,890</u>

Reliance Mutual Insurance Society Limited

2007

	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	92,197	13,253	15,347	1,867	122,664	(123)	122,541
Adjustments on to regulated basis							
Positive valuation differences	-	-	-	-	-	-	-
Negative valuation differences	(7,508)	-	-	-	(7,508)	-	(7,508)
Inadmissible assets	(7,351)	-	-	-	(7,351)	123	(7,228)
Total available capital resource	77,338	13,253	15,347	1,867	107,805	-	107,805

The capital statement shows an increase in available capital resources of £4.6m during 2007. 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 £000	Subsidiary Companies £000	Group Total £000
With profits insurance contracts	16,539	24,214	124,644	83,851	249,248	-	249,248
With profits investment contracts	281	-	-	10,893	11,174	-	11,174
Non profit insurance contracts	358,893	18,506	52,673	-	430,072	-	430,072
Non profit investment contracts	14,391	-	-	-	14,391	-	14,391
	390,104	42,720	177,317	94,744	704,885	-	704,885
Unit linked insurance contracts	297,908	180	-	-	298,088	-	298,088
Unit linked investment contracts	502,249	-	-	-	502,249	-	502,249
Total technical liabilities net of reinsurance	1,190,261	42,900	177,317	94,744	1,505,222	-	1,505,222

As all regulated subsidiary undertakings are wholly-owned, the capital positions of the Society and the Group are identical.

c) Movement in capital resources

The capital statements show a decrease in available capital resources of £44.7m during the year which is analysed in the table below. As the Group is not required to report results on a “realistic” basis, the policyholder liabilities do not include allowance for future final bonuses. The reduction in capital resources will necessitate future final bonuses, which are not guaranteed, being reduced.

Reliance Mutual Insurance Society Limited

	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 2008	77,338	13,253	15,347	1,867	107,805
<u>Expected change based on December 2007 assumptions</u>	7,660	1,092	(778)	259	8,233
<u>Valuation method and assumption</u>					
Relating to guaranteed annuities	3,041	1,335	-	2,102	6,478
Expense and inflation items	(4,230)	-	-	-	(4,230)
Investment return guarantees	-	-	-	(903)	(903)
Credit default risk	(14,048)	(58)	(1,401)	(1,216)	(16,723)
Interest rate assumptions	-	-	5,795	-	5,795
Retirement age assumptions	577	-	2,004	316	2,897
Other changes	3,115	(114)	(1,192)	(304)	1,505
	(11,545)	1,163	5,206	(5)	(5,181)
<u>Non guaranteed bonuses paid</u>	(7,263)	(1,715)	(2,438)	(1,256)	(12,672)
<u>Investment items</u>					
Equity and property falls	(17,078)	(4,079)	(4,461)	(2,965)	(28,583)
Changes in corporate bond portfolio	(3,780)	(100)	(637)	1,470	(3,047)
Interest rate changes	1,493	(1,014)	-	(4,123)	(3,644)
	(19,365)	(5,193)	(5,098)	(5,618)	(35,274)
Changes in provisions	2,445	-	-	668	3,113
Inter-fund transfers	(3,467)	-	-	3,467	-
Reduction in inadmissible assets	1,932	-	-	-	1,932
Other items	(4,173)	135	(1,471)	619	(4,890)
	(3,263)	135	(1,471)	4,754	155
Available capital resource at 31 December 2008	43,562	8,735	10,768	1	63,066

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 includes the difference between the actual and the expected emergence of margins retained in the valuation basis and the correction of a prior year error.

Changes in the valuation interest assumptions have affected the value of liabilities, but these have been broadly matched by changes in asset values, resulting in no material effect on available capital resources. Increased credit default margins have increased the long term business provision by £16.7m. Sensitivities of the valuation basis to changes in assumptions are reported in note 20.

Changes in provisions includes £3.4m in relation to the release of a compensation reserve held to cover possible policyholder claims of mis-selling in respect of certain pension policies. As more time has now elapsed the uncertainty over future claims has now reduced and the provision is no longer deemed necessary.

Interfund transfers includes £3.6m of assets transferred from RMWPSF to WPSF6 to ensure that WPSF6 maintains positive capital resources.

At 31 December 2008 available capital represented 144% of the Group's total capital resource requirements (2007 – 257%).

24. Tangible Assets

<u>Group</u>	Computer Hardware and software £000	Office Equipment £000	Motor Vehicles £000	Total £000
Cost:				
Brought forward	453	55	50	558
Additions	640	-	-	640
Disposals	-	-	(50)	(50)
Fully depreciated items written off	(39)	(17)	-	(56)
At 31 December 2008	1,054	38	-	1,092
Depreciation:				
Brought forward	176	35	50	261
Charge for the year	361	10	-	371
Disposals	-	-	(50)	(50)
Fully depreciated items written off	(39)	(17)	-	(56)
At 31 December 2008	498	28	-	526
Book value at 31 December 2008	556	10	-	566
Book value at 31 December 2007	277	20	-	297
 <u>Society</u>				
	Computer Hardware and software £000	Office Equipment £000	Motor Vehicles £000	Total £000
Cost:				
Brought forward	422	38	-	460
Additions	640	-	-	640
Fully depreciated items written off	(39)	-	-	(39)
At 31 December 2008	1,023	38	-	1,061
Depreciation:				
Brought forward	154	19	-	173
Charge for the year	353	9	-	362
Fully depreciated items written off	(39)	-	-	(39)
At 31 December 2008	468	28	-	496
Book value at 31 December 2008	555	10	-	565
Book value at 31 December 2007	268	19	-	287

25. Deferred Acquisition Costs

	2008		2007	
	Group £000	Society £000	Group £000	Society £000
On insurance contracts and with profits investment contracts	538	538	709	709
	<u>538</u>	<u>538</u>	<u>709</u>	<u>709</u>

26. Deferred Taxation

	Group £000	Society £000
Deferred tax provision at 1 January 2008	(3,855)	(3,855)
Movement in undiscounted deferred tax asset	6,394	6,394
Movement in discount	(964)	(964)
	<u>1,575</u>	<u>1,575</u>
Deferred tax asset/(provision) at 31 December 2008		

Net deferred tax assets are included within "Other debtors".

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

	Group		Society	
	2008 £000	2007 £000	2008 £000	2007 £000
Deferred tax provision on:				
On acquisition	-	(143)	-	-
On transfer of business	-	-	-	(173)
Unrealised gains on investments	-	(6,592)	-	(6,562)
Unrelieved expenses	1,917	2,286	1,917	2,286
Deferred acquisition costs	(82)	(110)	(82)	(110)
	<u>1,835</u>	<u>(4,559)</u>	<u>1,835</u>	<u>(4,559)</u>
Undiscounted deferred tax asset/(provision)				
Discount	(260)	704	(260)	704
	<u>1,575</u>	<u>(3,855)</u>	<u>1,575</u>	<u>(3,855)</u>
Discounted deferred tax asset/(provision)				
Deferred tax liability on pension asset (note 29)	(189)	(372)	(189)	(372)
	<u>1,386</u>	<u>(4,227)</u>	<u>1,386</u>	<u>(4,227)</u>
Asset/(provision) at end of year including deferred tax on pension asset				

At 31 December 2008 deferred tax assets totalling £6.007m (2007 - £5.381m) have not been recognised in the Society's balance sheet because there is no certainty of sufficient future profits and gains arising against which the losses giving rise to the asset can be offset.

27. Provisions for Other Risks and Charges

Group

	Deferred Taxation £000	Onerous Leases £000	Redundancy Provision £000	Total £000
Provision at 1 January 2008	3,855	3,956	650	8,461
Amount charged/(credited) to profit and loss account	(5,430)	(849)	60	(6,219)
Amounts utilised during the year	-	(2,620)	(710)	(3,330)
Transfer to other debtors	1,575	-	-	1,575
	<hr/>	<hr/>	<hr/>	<hr/>
Provision at 31 December 2008	-	487	-	487

The provision for future expenses on onerous leases on former offices is stated after offsetting projected income from subletting some of the properties. The longest lease to which the provision relates does not expire until 2017. Amounts utilised during the year include a payment of £2.5m in relation to the early surrender of a lease. This was less than the amount provided as at 1 January 2008 and the release of the remaining provision is included in the amount credited to the profit and loss account.

The redundancy provision related to the decision to relocate the activities of FS Management Limited to the parent company's offices. The provision at 1 January 2008 did not allow for all social security costs and a further £60,000 was incurred in 2008.

Society

	Deferred Taxation £000	Onerous Leases £000	Total £000
Provision at 1 January 2008	3,855	3,956	7,811
Amount charged/(credited) to profit and loss account	(5,430)	(849)	(6,279)
Amounts utilised during the year	-	(2,620)	(2,620)
Transfer to other debtors	1,575	-	1,575
	<hr/>	<hr/>	<hr/>
Provision at 31 December 2008	-	487	487

The comments on onerous leases for the Group also apply to the Society.

28. Other Creditors including taxation and social security

	2008		2007	
	Group £000	Society £000	Group £000	Society £000
Taxation and Social Security	925	885	1,510	1,367
Other creditors	482	482	710	667
	<hr/>	<hr/>	<hr/>	<hr/>
	1,407	1,367	2,220	2,034

29. Pension Costs

Defined Benefit Scheme

The majority of the Society's employees are members of Reliance Pension Scheme. The scheme provides defined benefits to members based on their service with the Society and level of remuneration and is funded to ensure payment of accrued benefits as they fall due. During the year ended 31 December 2008 the Society made contributions of £0.8m (2007 – £3.2m, including a one off contribution of £2.6m). Since the scheme is now accepting few new members and the age profile of the active members is increasing, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

The last full valuation of the scheme was carried out as at 1 April 2007 and this was updated to 31 December 2008 by qualified independent actuaries.

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

At 31 December	2008	2007
	%	%
Rates of inflation	3.3	3.5
Rates of salary increases (inflation and promotion)	6.3	6.5
Rate of increase for pension in payment (non-GMP)	3.3	3.5
Rate of increase for deferred pensions in deferment (non-GMP)	3.3	3.5
Discount rate	6.6	5.8

The mortality assumptions used were:

	2008	2007
	years	years
Longevity at age 65 for current pensioners:		
Men	19.9	19.8
Women	22.9	22.8
Longevity at age 65 for future pensioners:		
Men	21.1	21.0
Women	24.1	24.0

Reliance Mutual Insurance Society Limited

Analysis of net pension scheme assets and liabilities

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

At 31 December	Fair Value 2008 £000	Expected long-term rate of return 2008 %	Fair Value 2007 £000	Expected long-term rate of return 2007 %
Market value of scheme assets:				
Equities	13,825	8.5	18,023	8.5
UK Government fixed interest securities	9,175	4.0	8,476	4.2
Corporate bonds (inc. overseas bonds)	5,927	6.5	5,613	5.7
Property			1,079	6.9
International hedge funds	457	8.4	803	8.4
Other	3,448	2.0	5,251	5.5
	<hr/>		<hr/>	
Total market value of scheme assets	32,832		39,245	
Present value of scheme liabilities	(31,031)		(35,695)	
	<hr/>		<hr/>	
Surplus in the scheme	1,801		3,550	
Related deferred tax	(189)		(372)	
	<hr/>		<hr/>	
Net pension scheme asset	1,612		3,178	
	<hr/>		<hr/>	

Reconciliation of present value of scheme liabilities

	2008 £000	2007 £000
At 1 January	35,695	36,025
Current service cost	1,105	953
Interest cost	2,059	1,862
Actuarial loss/(gain) on liabilities due to experience	(345)	11
Actuarial (gain) on liabilities due to assumption changes	(5,991)	(1,673)
Benefits paid	(1,492)	(1,483)
	<hr/>	<hr/>
At 31 December	31,031	35,695
	<hr/>	<hr/>

Reconciliation of fair value of scheme assets

	2008 £000	2007 £000
At 1 January	39,245	35,572
Expected return on scheme assets	2,615	2,332
Actuarial (loss) on assets	(8,376)	(389)
Contributions paid by the employer	840	3,213
Benefits paid	(1,492)	(1,483)
	<hr/>	<hr/>
At 31 December	32,832	39,245
	<hr/>	<hr/>

Reliance Mutual Insurance Society Limited

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 loss of £5.761m (2007: gain £1.943m).

	2008 £000	2007 £000
<u>Analysis of amounts charged to profit and loss account</u>		
Investment income:		
Expected return on pension scheme assets	2,615	2,332
Interest cost of pension scheme liabilities	(2,059)	(1,862)
Included in Investment Income	556	470
Pension cost		
Current service cost	1,105	953
Past service costs	-	-
Included in net operating expenses	1,105	953
	2008 £000	2007 £000
<u>Analysis of actuarial pension scheme (loss)/gain after tax</u>		
Actual return less expected return on pension scheme assets	(8,376)	(397)
Experience gains and losses arising on scheme liabilities	345	(3)
Effect of changes in demographic and financial assumptions	5,991	1,673
Actuarial (loss)/gain recognised	(2,040)	1,273
Deferred tax thereon	214	(134)
Pension scheme (loss)/gain after tax	(1,826)	1,139

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

Actuarial gains and losses

The cumulative amount of actuarial losses that have been recognised in the profit and loss account net of deferred tax is £1.3m (2007: gain of £0.6m).

Expected contributions

The Society's contributions expected to be paid to the scheme for the year ended 31 December 2009 are estimated to be £0.686m.

Reliance Mutual Insurance Society Limited

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

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Present value of scheme liabilities	(31,031)	(35,695)	(36,025)	(36,153)	(30,489)
Fair value of assets	32,832	39,245	35,572	34,254	29,703
	<u>1,801</u>	<u>3,550</u>	<u>(453)</u>	<u>(1,899)</u>	<u>(786)</u>
Surplus/(deficit)	1,801	3,550	(453)	(1,899)	(786)
Deferred tax	(189)	(372)	46	213	88
	<u>1,612</u>	<u>3,178</u>	<u>(407)</u>	<u>(1,686)</u>	<u>(698)</u>
Net surplus/(deficit)	1,612	3,178	(407)	(1,686)	(698)
Experience gain/(loss) on liabilities	345	(3)	13	(335)	(317)
Experience gain/(loss) on assets	(8,376)	(397)	583	3,272	1,362

Defined Contribution Scheme

For the first three months of 2008 a group company contributed to the personal pensions of employees. The cost of contributions made was £0.010m (2007: £0.026m)

30. **Contingent Liabilities and Other Commitments**

At 31 December 2008 the Society and Group had entered into no significant finance lease contracts or capital commitments.

There are no contingent liabilities.

31. **Operating Lease Commitments**

The Society has operating lease commitments in respect of its head office premises. The annual commitment under non-cancellable leases is as follows:

	2008 £000	2007 £000
Expiring within 2 to 5 years	<u>188</u>	<u>188</u>

32. Transactions with Related Parties

The Society has taken advantage of the exemption within Financial Reporting Standard 8 – Related Party Transactions not to disclose transactions and year end balances with its subsidiaries, all of which are greater than 90% owned.

During the year the Society 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:

	2008		2007	
	No of Units 000	Unit Value £000	No of Units 000	Unit Value £000
a. <u>Group holdings</u>				
Units purchased	15	77	7,937	46,025
Units sold	91	386	29	168
Holding at 31 December	68,170	253,797	68,252	383,683
	<hr/>	<hr/>	<hr/>	<hr/>
b. <u>Society holdings</u>				
Units purchased	15	77	7,937	46,025
Units transferred from other group companies	-	-	5,345	29,996
Units sold	91	386	29	168
Holding at 31 December	68,161	253,762	68,237	383,627
	<hr/>	<hr/>	<hr/>	<hr/>

In addition the Reliance Pension Scheme invested in The British Life Unit Trust. 1,837,000 units were held throughout the year. The value of the holding at 31 December 2008 was £6,839,151 (2007 – £10,327,614)

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

All directors and some senior managers are Members of the Society and as such are policyholders on the same terms as available to members of staff.

Mr C B Russell provided taxation advice to the group. Payments for this advice, in addition to Mr Russell's emoluments as a director, totalled £3,911 (2007 - £8,643).

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

33. Post Balance Sheet Events

Global investment markets were volatile during the year and have continued to be volatile since the year end. However, in accordance with UK accounting standards, post balance sheet date changes in valuations have not been incorporated into the year end investment valuations. The impact of a 10% change in equity prices can be found on page 30.