

# Annual Report

## 31 March 2011



# Report and Accounts 2010-2011

## Contents

	<i>Page(s)</i>
Chairman's Review	3-4
Board of Directors	5-6
Reliance Bank Limited – Management and Staff	6
Directors' Report	7-13
Auditors' Report	14
Profit and Loss Account	15
Balance Sheet	16
Cash Flow Statement	17
Notes to the Accounts	18-29
Greeting from General Linda Bond	30
The Salvation Army Worldwide Facts and Figures	31-32

## Chairman's Review



The challenging economic climate, with record low base rates, has continued through the last financial year, and it is satisfying that the Bank has remained profitable through this period. Our conservative, ethical, Christian business model has continued to serve us well through the period of turmoil and regulatory change in the industry over the last few years, and our banking ethos continues to attract personal and business customers that appear disenchanted with main stream banks.

Margins have again been under extreme pressure as a result of the record low base rate continuing throughout the financial year and some one off costs, and this has resulted in a very modest profit, although performance is not unreasonable in the context of the challenges that have been managed through this period. The continuing low base rate will remain a significant drag on our performance until the advent of more normal market conditions, which means that profits will remain comparatively modest, pending future base rate rises. Nevertheless, our underlying business model is robust, highly liquid and well capitalised, with increasing contribution from our growing personal and SME business.

### **Performance**

Our non Salvation Army business in the Personal and SME sectors has continued to move forward against the very difficult economic backdrop, although there are signs of improvement, recovery is likely to be prolonged. Customer deposits increased from £190m to £196m.

As stated above we have continued to attract a flow of new personal and business customers, who are influenced by our Christian, ethical ownership and donation of at least 75% of our operating profits as gift aid to the Salvation Army. Lending to customers increased from £40.2 m to £44.6m, and this increase was split between our Salvation Army, Personal and SME business sectors. Continued selective growth in our conservative lending portfolio is evident. Total assets increased from £198m to £204m, resulting from an increase in loans to other banks (deposits) of £2m and an increase in lending to our customers of £4.4m. Pressure on historical interest margins remained a significant feature throughout the financial year.

In addition to the low base rate environment, performance was affected adversely by two material one off factors totalling £237k relating to bad debt provisions, which remain very low despite this, and legal costs.

The relatively modest performance resulted in a reduction in gift aid agreed by the Board from £504k to £116k, compared with £1.440m in 2009. The retained surplus increased the Bank's reserves from £7.489m to £7.525m.

## Customer Services

A number of projects were completed through the financial year that will improve customer service and our product range delivery, and these initiatives continue with further enhancements to our banking system in 2011/12. Growth was seen in our residential and commercial mortgage book despite the difficult trading conditions in the wider economy.

We continue to analyse customer feedback relating to our services, and the coming months will see the completion of projects that will further enhance our internet solution for customers, and this will be followed by enhancements to our mortgage products later in the financial year. It is still the case that we have never had a complaint referred to the Financial Ombudsman service.

## Directors

Up to the date of writing this review, there have been two resignations since our last report, being Edward Ashton and Major Jeffrey Wills.

Ian Scott was appointed a non executive director with effect from 19 May 2011. Ian has senior managerial banking experience through previous roles at the RBS Group and Abbey National. Also appointed with effect from 1 June 2011 as a non executive director was Major Andrew Gaudion, who is the Chief Accountant at the Salvation Army's International Headquarters.

## Staff

The challenges facing management and staff during the year were considerable, and it is a tribute to their dedication and professionalism that so much was achieved during a year of so much change. I thank them all for a very successful year, and thank our loyal customers for continuing to 'put their faith' in Reliance Bank.



**Ann Woodall**  
Chairman

## Board of Directors

**ANN WOODALL** – took up her present appointment as The Salvation Army's International Secretary for Business Administration (ISBA) on 1st March 2008. She has served as a Salvation Army officer for 41 years, primarily in finance and management related appointments, in the UK and in Africa. Now, as ISBA, she serves as senior advisor to The General and The Chief of the Staff on all matters of finance planning and utilisation, and also provides oversight of the finance functions for The Salvation Army in the 121 countries in which it serves. She holds an MA in Accounting and Finance, an M.Sc and PhD in Economics, and is a Fellow of the Association of Chartered Certified Accountants.

**GERALD BIRKETT** – joined Reliance Bank after a successful career at Midland Bank – now HSBC – for 35 years, serving in senior posts both in the City and abroad. Has been a director of Reliance Bank since 1994, and was Managing Director from 1999 to 2006, when he retired. He is also a director of The Salvation Army Trustee Company.

**BILL COCHRANE** – was commissioned and ordained as a Salvation Army Officer in 1975. After several Corps and Social Services appointments, he was appointed to The Army's Territorial Headquarters for the UK with the Republic of Ireland, serving in the areas of Community Services and External Relations. In 2002 he was appointed Secretary for Communications and in 2006 became the Chief Secretary for the UK Territory. He moved to his present appointment heading the Administration Department at The Salvation Army's International Headquarters in 2009 as International Secretary to the Chief of the Staff.

**PHILIP DEER** – is a non-executive director in the commercial and voluntary sector. He was a Senior Managing Director in the NatWest Bank Group and has extensive strategic, managerial and operational experience in London, Hong Kong, Sydney, Singapore and New York.

**ANDREW GAUDION** – was commissioned as an officer of The Salvation Army in 1982, serving the next 18 years in corps appointments in the United Kingdom. He was transferred to International Headquarters in 2000 as the Assistant Under Secretary to Europe Department. In 2004, Andrew moved to the Accounts Section where he served as Payroll Manager and Assistant Chief Accountant until July 2011 when he was appointed Chief Accountant. Andrew holds a BSc (Hons) in Applied Accounting and is a Member of the Association of Chartered Certified Accountants.

**DAVID HINTON** – entered the William Booth College for Officer Training in 1973 and was commissioned (ordained) in 1975. He served as a corps officer (minister) until 1996 when he was appointed as Divisional Commander of the North Scotland Division, a position he held until 2002 when he became the Divisional Commander of the West Scotland Division. In July 2005 David was appointed Financial Secretary for The Salvation Army, United Kingdom Territory with the Republic of Ireland, and in 2008 became the Secretary for Business Administration for the Territory. He holds the Professional Certificate in Management from the Open University and is also a member of the Chartered Management Institute.

**KEVIN DARE** – joined Reliance Bank in July 2005 as Finance Manager and was appointed Finance Director in October 2008. An Associate Chartered Management Accountant, Kevin has gained wide commercial, treasury and corporate funding experience in the private sector, joining the Bank from Welcome Break Group, where he was the Financial Accountant. He also holds a BA (Hons) degree in Business Studies.

**ALAN READ** – was ordained a minister in 1980. After various Corps appointments and further appointments at IHQ, he became Central Trust Accountant in the UK Territory in 2001, Assistant Territorial Financial Secretary of the Territory in 2005, and since March 2008 has been the UK Territorial Financial Secretary. He is also Secretary to the Salvation Army Trustee Company. Alan is a Fellow of the Chartered Institute of Secretaries and Administrators and holds an M.Sc. in Charity Accounting and Financial Management.

**IAN SCOTT** – joined the Board of Reliance Bank following a successful career with Nat West Bank Group/RBS in a variety of retail and Head Office roles, in the UK and abroad, which included a number of Senior Management appointments in International Operations. He later worked as a consultant to Abbey National PLC/Santander on electronic payments and international banking projects. His additional professional experience and responsibilities have included significant involvement with organisations working in the UK and European banking industries.

**TREVOR J. SMITH** – joined Reliance Bank as Operations Manager in August 2001, prior to becoming Managing Director upon the retirement of Gerald Birkett in July 2006. He enjoyed a successful career for over 30 years in Barclays Bank, with a varied retail banking career culminating in senior management posts in the City, Head Office and UK provinces. He left Barclays Bank in 1998 to work for The Salvation Army, taking responsibility for Finance and Administration in the London North East Division until 2001. Trevor, a lifelong Salvationist, is also a director of The Salvation Army International Trustee Company.

**BRIAN PEDDLE** – was commissioned and ordained as a Salvation Army Officer in 1977. After appointments involving the Training of Cadets, Youth Work and Corps Ministry he was appointed Divisional Commander of the Maritime Division in Canada and Bermuda Territory and this was followed by a Divisional Leadership appointment in the Northern Division of the New Zealand, Fiji and Tonga Territory. In 2009 he was appointed to the United Kingdom Territory with the Republic of Ireland where he serves as Chief Secretary.

**WALTER FUGE** – an officer in The Salvation Army for over 38 years with the majority of this time spent in Financial and Business Management appointments at Divisional and Territorial levels. He holds a Bachelor of Science degree in Business and Management and a Master of Business Administration degree from the University of Redlands. In addition, he is a Certified Internal Auditor, a Certified Fraud Examiner, an ACL Certified Data Analyst, and a Certified Control Specialist. He is currently serving as the Finance Secretary at The Salvation Army’s International Headquarters in London.

**Reliance Bank Limited – Management and Staff**



Nichola Keating’s Business Development Team



Paul Underwood’s Lending and Service Team



Trevor Smith  
Managing Director



Andrew Hunt and his Customer Service Team



Kevin Dare’s Finance, IT and Compliance Team

# Directors' Report

The Directors have pleasure in presenting their report, together with the accounts of the Bank, for the year ended 31 March 2011.

## PRINCIPAL ACTIVITY

The Bank provides a varied range of banking and related services to both business and personal customers, principally in the U.K., although it also holds some deposits for overseas customers. Whilst the majority of the Bank's business is conducted with The Salvation Army and its related organisations, it continues to grow successfully its non-Salvation Army business.

## RESULTS AND DIVIDENDS

The operating profit for the year amounted to £174,008 (2010: £697,619). The retained profit for the year after tax and the payment of gift aid donations to its parent charities amounted to £35,660 (2010: £143,355). The Directors do not propose a dividend.

## REVIEW OF THE BUSINESS

The results for the current year have seen a fall in profit as a result of the Base Rate of interest remaining at its record low level for a further 12 months. This compares to the previous financial year which benefited from higher locked in rates in the first half of the year. Whilst actual performance in the year was behind initial expectations, due to the impact of budgeted interest rate rises which did not materialise, underlying operating performance was ahead of budget. Faced with unprecedented market factors, it is encouraging that Reliance Bank has continued to remain profitable and has still been able to make a worthwhile gift-aid donation to The Salvation Army in the year. The Bank has no exposure to sub-prime lending or derivatives and, whilst bad debt charges have been higher than usual over the last two years, these still remain very low in comparison with the wider banking sector. Continued selective growth in the Bank's personal banking and SME business has shown an increase in the underlying contribution from these non-Salvation Army segments of the balance sheet, and this has helped support the Bank's overall performance in a difficult economic climate.

A total of £116,460 has been gift aided to the International and Central Trusts of The Salvation Army (2010: £503,750).

The total of the Bank's assets at 31 March 2011 amounted to £204,068,360 (2010: £197,657,302), before setting off £19,950,121 of shareholder lending (2010: £18,206,119). The Bank's liabilities increased correspondingly, and current liabilities (excluding subordinated liabilities) now stand at £196,543,632 (2010: £190,168,234).

Encouragingly, Reliance Bank has continued to grow its Personal and SME deposits and lending throughout the year. The increase in deposits during the year reflects increased customer balances in all segments of the business, Salvation Army deposit growth accounting for much of the increase although both Personal and SME deposits have shown strong percentage growth.

Throughout the year, the Bank has continued to hold robust levels of capital and excellent liquidity and funding levels. As at March 2011, Reliance Bank has a capital adequacy ratio (capital as a percentage of risk-weighted assets) of 12.3% and a core tier 1 ratio of 10.6% (which excludes subordinated loans). This represents capital headroom of 23.3% against regulatory capital requirements. Total advances to customers that are not zero risk-weighted are limited to 30% of total customer deposits, compared with many banks where the ratio is far higher. Consequently, the Bank does not borrow in the wholesale market and has avoided the liquidity stresses experienced by many institutions in recent years.

Reliance Bank has proved more than resilient during a period of extreme stress for financial markets over the last four years. Its low risk business model has seen continued profitability throughout this time. The year ahead is expected to remain challenging. With the Bank of England Base Rate at its

## Directors' Report – continued

record low level, and expectations that Base Rate will remain very low throughout the next financial year, the margin to be made on customer deposits will remain much reduced. Profitability, whilst expected to improve, is likely to remain below normal levels until Base Rate is at least 3%.

The Bank's current strategy is to continue to provide its parent charities and existing customers with quality service whilst expanding its personal, non-personal and mortgage business through targeted, selective growth.

### **RISK MANAGEMENT**

The economic climate of recent years has brought into sharp focus the importance of robust risk management policies. Reliance Bank's special position, being wholly owned by charitable organisations founded on Christian and ethical principles, dictates a very risk averse approach to business. It is the Bank's risk appetite, evidenced by its risk policies, and the management of those policies that have helped see the Bank remain profitable in a period when financial markets have been very volatile.

In common with all banks, Reliance Bank faces a number of risks including credit risk, interest rate risk, risks arising from holding foreign currencies, market risk and operational risks. Policies are in place to ensure that Reliance Bank's exposure to these risks is monitored and controlled. The Bank maintains a risk register, allocating responsibility for all significant risks to senior management. Risks are monitored on a regular basis, along with their associated controls and mitigants. The Bank performs stress tests as an integral part of monitoring its exposures. The Bank also completes its own annual Internal Capital Adequacy Assessment Process (ICAAP) report which details how the Bank assesses its key risks and sensitivities, how it intends to mitigate those risks and how much current and future capital is deemed necessary to support the Bank's operations in light of those risks. Stress testing is applied to identify key sensitivities and to ensure that the Bank is well placed to cope with stressed scenarios. Extracts from the Bank's ICAAP report are published on the Bank's website ([www.reliancebankltd.com](http://www.reliancebankltd.com)).

#### **Credit Risk**

Credit risk is controlled principally by establishing and enforcing authorisation limits, by defining exposure levels to counterparties and by checking the creditworthiness of counterparties. Daily monitoring of positions ensures that prudential limits are not exceeded. The Bank continues to adopt a conservative lending policy, which has resulted in a low bad debt track record, although charges in the current stressed financial environment have increased.

#### **Liquidity Risk**

The Bank has a formal policy to control liquidity risk whereby the maturity of assets and liabilities between periods is reviewed on a daily basis to ensure that mismatches do not exceed the maximum permitted under the policy. A new Liquidity Regime has been introduced by the Financial Services Authority which monitors the Bank's ability to fund potential cash outflows over a 3-month timeframe and requires the Bank to hold a minimum Liquidity Buffer in highly liquid, qualifying assets. The Bank performs regular stress tests to ensure that it holds adequate liquid assets. Under the new regulation, the Bank completes its own annual Individual Liquidity Systems Assessment, which evidences that liquidity systems and controls are in place that meet the requirements of the Financial Services Authority.

The Bank adopts a very conservative approach to the management of its liquidity and longer dated investments. Risk quality of counterparty is of paramount importance, and the Bank places deposits with, and purchases short-dated certificates of deposit from, UK and international financial institutions of high credit rating. Longer dated investments are placed in UK Government securities.

#### **Interest Rate Risk**

Interest rate risk is controlled by carefully monitoring market interest rates and moving Reliance Bank's rates in response to the market, maintaining a prudent spread between rates receivable and rates payable. Large customer term deposits are matched broadly with investments. Its portfolio of

## Directors' Report – continued

debt securities currently consists primarily of sterling certificates of deposit, all of which mature within twelve months of the Balance Sheet date and which realise fixed amounts upon maturity. Relatively low balances are held in UK Government securities of up to 10 years maturity. These are held as qualifying Liquidity Buffer assets but have also helped improve interest returns in the current market. The duration of loans is managed and the availability of fixed interest mortgages limited. Interest rate sensitivity gap analysis is undertaken to monitor interest rate risk.

### **Market Risk**

The Bank does not have a trading book and has no material exposure to Market Risk.

### **Operational Risk**

Operational risks, including the risk of fraud, are controlled by a wide variety of internal controls, the effectiveness of which are reviewed by the Audit & Compliance Committee through the internal audit function and monitoring of the risk register.

### **Currency Risk**

The Bank accepts fixed interest foreign currency term deposits. Only US dollar and Euro accounts have been accepted to date. To minimise foreign currency risk, all term deposits are placed in matching interbank deposits in the same currency and currency profits are converted to sterling on a regular basis.

### **Reputational Risk - Socially Responsible Banking**

Owing to the Bank's ethical focus, reputational risk is of particular relevance. The Bank's ethical stance is driven by Christian principles. Reliance Bank does not knowingly lend to companies or persons who are involved in the manufacture of armaments, alcoholic drinks or tobacco products, nor does it lend to repressive entities or those who do not respect human rights or do not operate in a socially responsible manner. This list is not exclusive, as each proposal is considered on its merits to ensure lending decisions fit with the Bank's Christian ownership.

### **Controlling and Monitoring Risks**

An important aspect of controlling risks is monitoring key performance indicators, which also allows the Bank to assess performance.

The Board receives monthly management information packs. These include management accounts which compare actual performance against budget and prior year. Explanations are provided to the Board of significant variances and comment focuses on the key performance indicators of operating profit, net interest income, administrative expenses, customer deposits, customer lending and net assets. This helps the Bank's management assess the effectiveness of its margin management and cost control in light of the market conditions it faces, as well as establishing how successful the Bank has been in attracting new customers. The monthly management accounts also report the current liquidity position and provide information on five year trends of the following financial ratios – return on equity, return on assets and the cost/income ratio. Other standard components of the management information packs include updates on lending and arrears positions, regulatory compliance, treating customers fairly reviews and business development information.

The Bank's liquidity position and large exposures are monitored daily against targets and limits set by the Board in line with the Financial Services Authority's parameters whilst Capital Adequacy is continuously monitored against a minimum target, the calculation rules for which are set by the Financial Services Authority.

The Board also reviews a quarterly Business Progress Report which supplements the monthly management accounts and analyses the financial development of the Bank's different business segments (The Salvation Army, Personal and SME).

## **CORPORATE GOVERNANCE**

Whilst Reliance Bank, a private limited company, is not governed by the requirements of the London Stock Exchange, the following disclosures in connection with corporate governance are made

## Directors' Report – continued

voluntarily to comply with accepted best practice. These disclosures do not necessarily cover all aspects on which the Bank would have to report were it subject to the requirements of the London Stock Exchange, but do cover those aspects which are considered to be most relevant to the Bank.

Reliance Bank is headed by an effective Board of Directors, which meets six times a year and which directs and controls the company. There is a clear division of responsibility at the head of the company which ensures a balance of power and authority between the Chairman, who controls and directs Board meetings, and the Chief Executive Officer, the Managing Director, who carries responsibility for running the Bank's business.

The Board consists of a balance of both executive and non-executive directors and is supplied, through the offices of the Company Secretary, with information in the form of monthly management accounts, budgets, forecasts, etc to allow it to discharge its responsibilities.

Reliance Bank has an Audit & Compliance Committee, consisting of three non-executive directors (Philip Deer, Chairman, Gerald Birkett and Alan Read), which meets at least four times annually and ensures that the recommendations of the Financial Services Authority and the external auditors are considered in full and implemented, where appropriate. It also oversees the work and considers the reports of the Bank's internal audit function, overseeing the implementation of their recommendations where appropriate, and considers the effectiveness of internal controls. To comply with the requirements of legislation and to ensure prudent management of the business, the Bank has established a range of internal controls, which have operated effectively throughout the year.

### MISSION STATEMENT

It is Reliance Bank's mission to stand out as a bank with a Christian and ethical conscience whilst delivering an excellent, efficient and personal banking service across a range of competitive products. In striving to achieve this, fairness to all its customers is paramount. The Bank endeavours to put sincerity and personal integrity at the heart of all that it does.

### CUSTOMER POLICY

The Bank's focus is to give banking customers a Christian, ethical choice that is competitive – offering quality banking products and services that give the customer a fair deal with the assurance that they will not be taken advantage of, that their assets will be looked after responsibly, and with the knowledge that the return made on those assets by the Bank will ultimately go to support the work of The Salvation Army. As a consequence, Reliance Bank is very selective about both the products and services it offers and its investment decisions.

One FSA key principle requires all regulated firms to treat their customers fairly. Reliance Bank has a policy of dealing fairly with customers at all times and takes complaints very seriously. In this respect, the Bank holds regular staff workshops, and has a system to record all cases where the customer is not satisfied with its service for whatever reason. Management and the board review this data regularly to support its aim for continuous improvement in customer service.

If a complaint remains unresolved in the perception of the customer, they may refer it to the Financial Ombudsman Service for independent assessment. It is worthy of comment that the Bank has yet to have a complaint referred in this manner.

Reliance Bank intends to maintain its focus at all levels in delivering the highest standards of service to ensure that it treats all its customers on a fair and consistent basis.

### CHARITABLE DONATIONS

As indicated in the Review of the Business above, the Bank has made two charitable donations under Gift Aid to its parent charities. The Bank's policy is to gift aid a substantial proportion of its profits to the parent charities, the gift aid payments being divided equally between both charities.

# Directors' Report – continued

## DIRECTORS AND THEIR INTERESTS

The Directors serving during the year and up to the date of this report were as follows:

- Mr Edward Ashton (Resigned 16 September 2010)
- Mr Gerald Birkett
- ^ Commissioner William Cochrane
- \* Mr Kevin Dare – Finance Director
- Mr Philip Deer
- ^ Lieut-Colonel Walter Fuge
- ^ Major Andrew Gaudion (Appointed 1 June 2011)
- ^ Lieut-Colonel David Hinton
- ^ Colonel Brian Peddle
- ^ Major Alan Read
- Mr Ian Scott (Appointed 19 May 2011)
- \* Mr Trevor J. Smith - Managing Director
- ^ Major Jeffrey Wills (Resigned 1 June 2011)
- ^ Commissioner Ann Woodall - Chairman
  
- \* Executive Directors
- ^ Serving Salvation Army Officers

No directors hold any beneficial interests in the Share Capital of the Bank.

## SUBSTANTIAL SHAREHOLDERS

The Salvation Army International Trustee Company holds 51% of the issued share capital of Reliance Bank Limited for the benefit of The International Trust of The Salvation Army whilst The Salvation Army Trustee Company holds 49% of the issued share capital for the benefit of the Central Trust of The Salvation Army UK Territory.

The majority of the Bank's business is conducted with its shareholders, fellow subsidiaries and associated undertakings.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

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

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Bank's transactions and disclose, with reasonable accuracy at any time, the financial position of the Bank and enable them to ensure that the financial statements comply with the

## Directors' Report – continued

Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that, in the case of each of the persons who are directors at the date of this report, the following applies:

- So far as each director is aware there is no relevant audit information (information needed by the Bank's auditors in connection with preparing their report) of which the Bank's auditors are unaware; and
- Each director has taken all the steps necessary to make herself/himself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

### TANGIBLE FIXED ASSETS

Additions to tangible fixed assets are set out in Note 11 to the accounts.

### EMPLOYMENT POLICY

In formulating employment policy the Bank has been guided by the relevant legislation in the United Kingdom.

The Bank is committed to providing equal opportunities to all workers and job applicants.

It aims to ensure that no job applicant shall receive less favourable treatment on the grounds of sex, age, marital status, sexual orientation, disability, race, colour, religion or belief, nationality or ethnic origin. All employees are responsible for complying with this policy and for ensuring that the standards of behaviour required by the Bank are met at all times. Employees who fail to comply with this policy may be subject to the Bank's disciplinary procedures.

All staff should expect to work in an environment which is free from harassment, bullying or any other type of intimidation. The Bank strives to create a culture whereby staff can feel confident about raising legitimate concerns about any form of harassment or potential wrongdoing within the workplace relating to areas such as malpractice, breaches of FSA regulations, health and safety issues and environmental concerns. Whistleblowing procedures are in place.

The Bank aims to develop staff to be the best that they can be in their professional work, by encouraging continued personal and professional development within the Bank and through attendance on appropriate external courses.

### REMUNERATION POLICY

The Bank does not operate a Remuneration Committee but benchmarks all salaries against an external review of some 80 small banks operating in the City of London. This independent review of the Bank's salary structure across all positions is obtained at least every 3 years from a recognised firm of Remuneration Consultants within the Finance Sector. Clerical positions are assigned a salary grading dependent on the responsibilities and roles of the job in line with the results from the external review which also informs the median (standard) level of pay for all job positions. Progression to the standard pay level is phased over 4 years from first joining, provided that performance is satisfactory. Together, the Managing Director and Chairman have the discretion to award the standard pay level sooner or a slightly higher ultimate maximum pay level where the experience and ability of the member of staff concerned warrants this. The Managing Director, in consultation with line managers, makes proposals for annual salary reviews to the Chairman, applying cost of living increases, where appropriate. The Chairman performs a reality check and final sign off on annual salary reviews with access to the external review data and staff performance reviews and, in arriving at a final decision, may refer to non-executive directors of the Bank in respect of managerial salaries.

## Directors' Report – continued

The Bank operates an Annual Performance Agreement process with all staff and management. This serves as a means to promote and monitor the development of staff and also provides a framework to review individual performance against agreed targets. Performance is measured against a combination of generic and specific targets across the following assessment areas: Quality of Work, Compliance, Sales and Service, Reliability and Continuing Professional Development. Modest cash bonuses, in relation to total remuneration, are awarded annually dependent on performance against these targets. In the current climate, with low base rates driving down operating profits, clerical staff alone received a nominal bonus in the last financial year, and no bonus was paid to managerial staff. Total bonuses amounted to less than £7,000. The budgeted bonus pool for the financial year 2011 / 12 is limited to £10,000 for all staff. Bonuses are only paid in the form of cash through the payroll and no element of bonuses is deferred, recognising the modest bonus ceiling that would not exceed 10% of basic salary. The Bank has not paid any sign-on or severance payments in the financial year and does not envisage making such payments.

Non-executive directors receive no remuneration for their services to the Bank (refer to note 5 on page 20).

Aggregate remuneration information for management, whose actions could potentially have a material impact on the risk profile of the Bank:

<b>Aggregate Remuneration of Code Staff</b>	<b>Fixed Remuneration (incl Pension)</b>	<b>Variable Remuneration (Bonus)</b>
Managers (5)	£380,450	£-

### AUDITORS

In accordance with S.485, Companies Act 2006, a resolution to re-appoint Knox Cropper as auditors will be put to the Members at the Annual General Meeting.

**BY ORDER OF THE BOARD**  
Paul N. Underwood  
Secretary

23 June 2011

# Auditors' Report

We have audited the financial statements of Reliance Bank Limited for the year ended 31 March 2011 which comprise the profit and loss account, the balance sheet, the cashflow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report or for the opinion we have formed.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

## OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 March 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

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

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

8/9 Well Court  
London EC4M 9DN  
23 June 2011

Duncan Jones (Senior Statutory Auditor)  
For and on behalf of Knox Cropper,  
Statutory Auditor

# Profit and Loss Account

For the year ended 31 March 2011

	Notes	2011 £	2010 £
<b>Interest Receivable</b>			
– On Debt Securities		1,038,540	1,561,314
– Other		1,885,755	1,617,427
	2	<u>2,924,295</u>	<u>3,178,741</u>
<b>Interest Payable</b>	3	<u>(855,959)</u>	<u>(849,109)</u>
<b>Net Interest Income</b>		2,068,336	2,329,632
Fees and Commissions Payable		(202,269)	(191,096)
Other Operating Income		183,379	165,669
<b>Operating Income</b>		<u>2,049,446</u>	<u>2,304,205</u>
Administrative Expenses	4	(1,736,209)	(1,454,562)
Depreciation	11	(139,229)	(152,024)
<b>Operating Profit</b>	5	<u>174,008</u>	<u>697,619</u>
<b>Tax on Profit on Ordinary Activities</b>	6	<u>(21,888)</u>	<u>(50,514)</u>
<b>Profit on Ordinary Activities after Tax</b>		<u><u>£152,120</u></u>	<u><u>£647,105</u></u>
<b>Application of Profit after Tax</b>			
Profit after Tax	20	152,120	647,105
Donations to The Salvation Army*	20, 27	(116,460)	(503,750)
<b>Retained Surplus for the Financial Year</b>		<u><u>£35,660</u></u>	<u><u>£143,355</u></u>

\*Donations to The Salvation Army are made under gift aid.

All activities reported above, both in the current year and preceding year, relate to continuing operations.

There is no material difference between the operating profit and retained earnings reported above and their historical cost equivalents.

All recognised gains and losses are reflected through the Profit and Loss Account. No separate Statement of Total Recognised Gains and Losses is required.

# Balance Sheet

as at 31 March 2011

	Notes	2011 £	2010 £
Cash and Balances at Central Bank	7	2,934	8,463
Loans and Advances to Banks	8	60,659,482	58,599,512
Loans & Advances to Customers	9	44,554,850	40,236,110
Debt Securities	10	94,770,882	95,000,000
Tangible Fixed Assets	11	2,981,897	3,014,481
Other Assets	12	4,206	8,074
Prepayments and Accrued Income	13	1,094,109	790,662
Total Assets		<b>£204,068,360</b>	<b>£197,657,302</b>
<b>LIABILITIES</b>			
Customer Accounts	14	196,076,986	189,731,973
Other Liabilities	15	24,744	56,904
Accruals and Deferred Income	16	431,553	379,357
Provisions for Liabilities and Charges	17	10,349	–
Total Liabilities		<b>196,543,632</b>	<b>190,168,234</b>
Subordinated Liabilities	18	1,000,000	1,000,000
Called Up Share Capital	19	3,500,000	3,500,000
Profit and Loss Account	20	3,024,728	2,989,068
Equity Shareholders' Funds	21	6,524,728	6,489,068
Total Liabilities and Equity		<b>£204,068,360</b>	<b>£197,657,302</b>
<b>MEMORANDUM ITEMS</b>			
Contingent Liabilities and Commitments	23	£15,077,624	£17,672,619

These accounts were approved by the Board of Directors and authorised for issue on 23 June 2011.

Trevor J. Smith, Managing Director  
Ann Woodall, Chairman

# Cash Flow Statement

For the year ended 31 March 2011

	Notes	2011 £	2010 £
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	24	2,170,056	(27,996,753)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE	25	(15,000)	(15,368)
TAXATION		(44,636)	(165,868)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	26	(17,147,137)	42,098,930
		<u>(15,036,717)</u>	<u>13,920,941</u>
GIFT AID PAID	27	(180,000)	(515,100)
(DECREASE)/INCREASE IN CASH		<u>£(15,216,717)</u>	<u>£13,405,841</u>
RECONCILIATION OF MOVEMENT IN NET FUNDS	28		
Net Funds at the beginning of the year		26,697,862	13,292,021
Net Cash (outflow)/inflow in the year		<u>(15,216,717)</u>	<u>13,405,841</u>
Net Funds at the end of the year		<u>£11,481,145</u>	<u>£26,697,862</u>

# Notes to the Accounts

For the year ended 31 March 2011

## 1. ACCOUNTING POLICIES

The accounts are prepared in accordance with the special provisions relating to Banking Companies of Part 1 of Schedule 2 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and in accordance with applicable United Kingdom accounting standards (UK SSAPS and FRSs issued by the Accounting Standards Board).

The more significant accounting policies adopted, which have been consistently applied, are stated below:

- (a) The accounts have been prepared under the historical cost convention and on the going concern basis.
- (b) Income items are recognised on an accruals basis with net interest income being measured on an effective interest basis.

Interest receivable on Sterling Certificates of Deposit, loans and advances to banks and fixed interest securities are recognised on a daily basis.

Overdraft interest is recognised on an accruals basis with capitalisation on a quarterly basis. Interest income on loans is capitalised on a monthly basis. Mortgage interest is calculated on a daily basis and charged monthly in arrears.

Bank charges and commissions receivable are recognised in the profit and loss account as they accrue.

Rental income is recognised on an accruals basis.

- (c) All items of expenditure are recognised on an accruals basis.
- (d) Depreciation has been provided so as to write off the cost of fixed assets over their estimated useful lives. The principal rates adopted per annum are 2% for the purchase cost of the property (ignoring land), 20% for subsequent refurbishment costs, 25% or 33% for computer software and hardware respectively and varying rates of between 10% and 20% for fixtures, fittings, furniture and equipment.
- (e) Impairment reviews are undertaken for all financial assets, both on an individual and a collective basis. No impairment charges have been deemed necessary except for individual assets within the Loans and receivables category. Loans and advances are considered on a case by case basis and are provided against as soon as it is anticipated that they may not be recoverable in full (which in practice means when they become non-performing) unless the Bank considers that it has adequate security to cover all balances outstanding plus a margin. Whilst the Bank's bad debt record remains good the Directors consider that a collective impairment charge is not required.
- (f) Deferred tax is recognised in respect of all timing differences that have originated and not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more or less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the rate of tax prevailing at the balance sheet date. Deferred tax provisions are not discounted.

- (g) The Bank is complying with FRS 17. The Bank's employees are currently entitled to join The Salvation Army Employees' Pension Fund – a defined benefit funded scheme. The scheme is a multi-employer scheme and the actuary has confirmed that it is not practical to allocate the assets and liabilities of the scheme between participating employers. Pension costs are therefore reflected in the accounts when payments to the pension scheme fall due.
- (h) Set-off of customer accounts only occurs where legal right of set-off is established (as confirmed by legal opinion), where a single banking relationship exists and where there are no practical impediments to prevent the exercise of the Bank's legal rights. To indicate how the Bank's credit risk is mitigated, the extent of set-off is disclosed in the relevant notes to the accounts.
- (i) Contingent liabilities are recognised as memorandum items on the face of the Balance Sheet and further analysed in Note 23 to the accounts at their contract amounts unless the possibility of any transfer on settlement is remote.
- (j) Assets & Liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Transactions on foreign currency accounts are recorded in the ledgers in the currencies concerned and are also translated at the year end rates for the purpose of drafting the financial statements. Any gains or losses arising on translation are reflected in the Profit and Loss Account.
- (k) Financial assets and liabilities – The Bank's financial instruments comprise loans and advances, debt securities and customer accounts. The Bank does not hold derivative financial instruments. Reliance Bank is not a public limited company and does not measure financial instruments at fair value through the profit and loss account and is therefore not obliged to comply with FRS 26. Nevertheless, its financial assets are categorised in accordance with FRS 26.

# Notes to the Accounts – continued

## 1. ACCOUNTING POLICIES – continued

Loans and receivables are disclosed at amounts advanced less capital repayments to date and less any impairment provisions.

Debt Securities comprise UK Government listed securities and Sterling Certificates of Deposit issued by financial institutions of high credit rating.

Whilst a key purpose of holding UK Government Securities is to meet the Liquidity Buffer requirements of the FSA, with the Bank's extremely strong liquidity position, it is the Directors' firm opinion that these buffer assets will not be required to fund a liquidity shortfall and, as such, consider it appropriate to categorise these assets as Held-to-Maturity investments, measured at amortised cost.

Sterling Certificates of Deposit are also classified as Held-to-Maturity investments with their maturity values being identical to cost. A comparison of the carrying amount and the fair value for Debt Securities as at the balance sheet date is disclosed in Note 10.

## 2. INTEREST RECEIVABLE

	2011 £	2010 £
Interest receivable on Debt Securities		
– Listed Investments	72,709	–
– Sterling Certificates of Deposit	965,831	1,561,314
	<u>1,038,540</u>	<u>1,561,314</u>
Interest receivable on Loans and Advances to Customers	1,087,336	984,264
Interest receivable on Bank and Discount Market Deposits	798,419	633,163
	<u>£2,924,295</u>	<u>£3,178,741</u>

All interest income arises within the UK from the conduct of retail banking business. No segmental analysis is required.

Interest receivable on loans and advances to customers includes interest charged to related parties as follows:

	2011 £	2010 £
Parent Undertakings	385,875	370,743
Fellow Subsidiary Undertakings	10	27
Associated Undertakings	7,073	15,961
	<u>392,958</u>	<u>386,731</u>
Interest Receivable from Related Parties	392,958	386,731
Third Parties	694,378	597,533
	<u>£1,087,336</u>	<u>£984,264</u>

Related parties are defined in Note 9(a).

## 3. INTEREST PAYABLE

Parent Undertakings	509,396	523,775
Fellow Subsidiary Undertakings	40,259	49,654
Associated Undertakings	234,704	192,567
	<u>784,359</u>	<u>765,996</u>
Interest Payable to Related Parties	784,359	765,996
Third Parties	71,600	83,113
	<u>£855,959</u>	<u>£849,109</u>

Related parties are defined in Note 9(a).

## Notes to the Accounts – continued

4. ADMINISTRATIVE EXPENSES	2011 £	2010 £
Employee Costs (including Executive Directors)		
Wages and Salaries	769,963	738,110
Social Security Costs (i)	85,359	52,804
Pension Costs (ii)	16,685	55,602
	872,007	846,516
Provision for Doubtful Debts Charge	140,619	39,226
Other Administrative Expenses (iii)	723,583	568,820
	£1,736,209	£1,454,562

The average number of employees in the current year was 22 (2010: 22).

- (i) An over accrual of national insurance costs recognised at 31 March 2009 was written back in 2010.
- (ii) In March 2009 Reliance Bank made a one-off contribution of £200,000 to The Salvation Army Employees' Pension Fund to address the actuary's estimate of the Bank's share of the multi-employer scheme's deficit at 31 March 2009. In the event, this has proven sufficient to allow the Bank to make reduced contributions from April 2010 to December 2011.
- (iii) Other administrative expenses have been distorted upwards in the current year by a number of one-off costs which should not be repeated in forthcoming years.

5. OPERATING PROFIT	2011 £	2010 £
This is stated after charging/(crediting) :		
Directors' Remuneration – For Management Services	199,486	196,330
Bankers' Comprehensive Crime Insurance (includes Directors' Professional Indemnity Insurance and Directors' & Officers' Liability Insurance)	24,589	31,364
Auditors' Remuneration – For Audit	37,750	35,191
Prior Year Over Accrual	–	(748)
Rental Income Receivable	(43,227)	(41,992)
Appreciation of Government Securities	(1,548)	–
	£199,000	£199,000

Only two Directors received emoluments from Reliance Bank, their remuneration in aggregate is disclosed above and this includes pension contributions of £24,305 (2010: £25,525). Non-executive directors received no remuneration from the Bank (and are not members of the pension scheme), although non-executive directors who are Salvation Army Officers received an allowance from one or other of the parent charities for their services to those charities.

6. TAXATION	2011 £	2010 £
(a) UK corporation tax on profits for the year	10,320	44,636
Deferred tax charge (Note 17)	11,568	5,878
	£21,888	£50,514
(b) Tax Charge Reconciliation		
Operating Profit	174,008	697,619
Gift Aid Donation	(116,460)	(503,750)
	£57,548	£193,869
Profit after Gift Aid multiplied by:		
Small Companies rate of corporation tax 21% (2010: 21%)	12,085	40,712
Difference between Capital Allowances and Depreciation	(1,765)	3,924
	£10,320	£165,868

## Notes to the Accounts – continued

<b>7. CASH AND BALANCES AT CENTRAL BANK</b>	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Cash in Hand	<u><b>£2,934</b></u>	<u>£8,463</u>
<b>8. LOANS AND ADVANCES TO BANKS</b>		
Bank Balances		
Recoverable on Demand	<u><b>11,478,211</b></u>	<u>26,689,399</u>
Bank Deposits		
Recoverable in three months or less	<b>18,347,731</b>	13,494,071
Recoverable between three and six months	<b>17,591,304</b>	18,416,042
Recoverable between six months and one year	<b>13,242,236</b>	–
	<u><b>£60,659,482</b></u>	<u>£58,599,512</u>

All the loans and advances to banks represent deposits with banks and building societies with high credit ratings. No provision against these balances is deemed necessary. None of these loans and advances were extended to related parties and none are secured.

The role of interbank deposits in Reliance Bank's investment strategy is indicated in the Risk Management summary on pages 8 and 9.

### 9(a) LOANS AND ADVANCES TO CUSTOMERS

The role of loans and advances to customers in the Bank's investment and operating strategy is disclosed in the Risk Management summary on pages 8 and 9.

Parent Undertakings consist of The Salvation Army Central Trust and The Salvation Army International Trust (Note 19). Fellow Subsidiary Undertakings consist of companies owned by The Salvation Army Central Trust. Associated Undertakings consist of other Charitable Trusts which are managed by The Salvation Army Trustee Company.

All dealings between the Bank, parents, fellow subsidiary and associated undertakings are undertaken on commercial terms.

All loans and overdrafts extended to the Central and Social Trusts of The Salvation Army are covered by set-off arrangements.

Loans to Parent Undertakings consist of a facility granted through The Salvation Army Trustee Company for the purpose of, or in connection with, the purchase, repair, enhancement or extension of properties belonging to The Salvation Army or its wholly owned subsidiaries. Whilst the loan is included under the set-off arrangements, it is also independently secured by cash and gilts with a total market value of at least 115% of the drawdown facility. This carries a zero risk weighting for Capital Adequacy purposes.

	<u>Net</u>	<u>2011</u>	<u>Gross</u>	<u>2010</u>
	<u>£</u>	<u>Set-Off</u>	<u>£</u>	<u>Gross</u>
		<u>£</u>		<u>£</u>
Recoverable on Demand:				
Overdrafts	<u>902,774</u>	<u>691,889</u>	<u>1,594,663</u>	<u>1,556,678</u>
Other Loans and Advances:				
Mortgages	<b>16,015,015</b>	–	<b>16,015,015</b>	15,085,431
Loans	<b>7,686,940</b>	<b>19,258,232</b>	<b>26,945,172</b>	23,594,001
	<u><b>23,701,955</b></u>	<u><b>19,258,232</b></u>	<u><b>42,960,187</b></u>	<u>38,679,432</u>
	<u><b>£24,604,729</b></u>	<u><b>£19,950,121</b></u>	<u><b>£44,554,850</b></u>	<u>£40,236,110</u>

## Notes to the Accounts – continued

### 9(a) LOANS AND ADVANCES TO CUSTOMERS – continued

	Net £	2011 Set-Off £	Gross £	2010 Gross £
<b>Loans and advances to customers analysed by periods outstanding to maturity:</b>				
Recoverable:				
On demand	1,773,461	691,889	2,465,350	2,134,987
In 3 months or less	170,944	19,258,232	19,429,176	17,562,253
In 1 year or less but more than 3 months	941,831	–	941,831	717,114
In 2 years or less but more than one year	503,354	–	503,354	658,966
In 5 years or less but more than 2 years	1,544,412	–	1,544,412	2,497,934
Over 5 years	19,823,828	–	19,823,828	16,694,851
Bad debt provisions	(153,101)	–	(153,101)	(29,995)
	£24,604,729	£19,950,121	£44,554,850	£40,236,110

### Loans and advances to connected undertakings

	2011 Gross £	2010 Gross £
Due from Parent Undertakings – Overdrafts	481,205	451,075
Loans	19,258,232	17,558,063
Due from Fellow Subsidiary Undertakings – Overdrafts	–	268
Due from Associated Undertakings – Overdrafts	210,684	197,186
Covered by Set-off arrangements	19,950,121	18,206,592
Due from Associated Undertakings – Loans	310,379	–
	£20,260,500	£18,206,592

### Non Performing Loans and Advances to Customers

Before Provisions	£325,314	£302,628
After Provisions	£172,213	£272,633

The non performing loans which have not been provided against are all secured and the Bank is satisfied that the value of the secured assets is sufficient to discharge the debt in full plus a margin.

	2011 £	2010 £
<b>9(b) PROVISIONS FOR BAD AND DOUBTFUL DEBTS</b>		
As at 1 April 2010	29,995	23,201
Charge to Profit and Loss Account	149,062	57,986
Amounts Written Off	(17,513)	(32,432)
Released on Recovery	(8,443)	(18,760)
As at 31 March 2011	£153,101	£29,995

As indicated in accounting policy 1(e), loans and advances are provided against as soon as it is anticipated that they may not be recoverable in full, which in practice means as soon as they become non performing, except where the Bank is confident that it has adequate security with a margin to cover its exposure.

## Notes to the Accounts – continued

### 10. DEBT SECURITIES

	31 March 2011		31 March 2010	
	Carrying value £	Market value £	Carrying value £	Market value £
UK Government Listed Securities	2,970,882	3,037,100	–	–
Sterling Certificates of Deposit Issued by Commercial Banks/Building Societies	91,800,000	91,800,000	95,000,000	95,000,000
	<u>£94,770,882</u>	<u>£94,837,100</u>	<u>£95,000,000</u>	<u>£95,000,000</u>

The movements during the year on debt securities are as follows:

	UK Government Listed Securities £	Sterling Certificates of Deposit £	Total Debt Securities £
At 31 March 2010	–	95,000,000	95,000,000
Acquisitions	2,969,334	158,800,000	161,769,334
Maturities and disposals	–	(162,000,000)	(162,000,000)
Appreciation	1,548	–	1,548
At 31 March 2011	<u>£2,970,882</u>	<u>£91,800,000</u>	<u>£94,770,882</u>

Sterling Certificates of Deposit are held as Held-to-Maturity investments and are valued at amortised cost (being no greater than net realisable value). £47,000,000 of Sterling Certificates of Deposit held at 31 March 2011 mature within three months of the Balance Sheet date (2010: £68,000,000), with £10,000,000 maturing between three and six months (2010: £2,000,000) and £34,800,000 maturing between six months and one year (2010: £25,000,000).

The role of debt securities in Reliance Bank's investment strategy is indicated in the Risk Management summary on pages 8 and 9.

The only listed investments held by the Bank during the year were UK Government Securities. All UK Government Securities mature outside one year.

### 11. TANGIBLE FIXED ASSETS

	Office Furniture, Fittings and Equipment £	Land & Buildings £	Total 2011 £
Cost:			
Brought Forward	1,446,178	3,500,040	4,946,218
Additions	106,645	–	106,645
Disposals	(161,328)	–	(161,328)
	<u>1,391,495</u>	<u>3,500,040</u>	<u>4,891,535</u>
Depreciation:			
Brought Forward	1,220,448	711,289	1,931,737
Charge for the year	92,55	46,675	139,229
Eliminated on Disposal	(161,328)	–	(161,328)
	<u>1,151,674</u>	<u>757,964</u>	<u>1,909,638</u>
Net Book Value at 31 March 2011	<u>£239,821</u>	<u>£2,742,076</u>	<u>£2,981,897</u>
Net Book Value at 31 March 2010	<u>£225,730</u>	<u>£2,788,751</u>	<u>£3,014,481</u>

Land and Buildings consist of £3,050,000 acquisition costs, £122,800 stamp duty, £10,967 for agency fees and £316,273 for refurbishments. The Bank lets parts of its premises to the parent charities (Note 30).

## Notes to the Accounts – continued

<b>12. OTHER ASSETS</b>		<b>2011</b>	<b>2010</b>
		<b>£</b>	<b>£</b>
Deferred Tax Asset (Note 17)		–	1,219
Other Debtors		4,206	6,855
		<u>£4,206</u>	<u>£8,074</u>
<b>13. PREPAYMENTS AND ACCRUED INCOME</b>			
Prepayments		86,844	78,012
Overpayment of Gift Aid Recoverable		76,090	12,550
Accrued Interest Receivable		931,175	700,100
		<u>£1,094,109</u>	<u>£790,662</u>
<b>14. CUSTOMER ACCOUNTS</b>			
	<u>Net</u>	<u>2011</u>	<u>2010</u>
	<u>£</u>	<u>Set-Off</u>	<u>Gross</u>
		<u>£</u>	<u>£</u>
Current Accounts	13,929,408	19,950,121	33,879,529
Deposit Accounts	162,197,457	–	162,197,457
	<u>£176,126,865</u>	<u>£19,950,121</u>	<u>£189,731,973</u>
<b>With agreed maturity dates</b>			
<b>or periods of notice by remaining maturity:</b>			
Repayable on demand	22,714,081	19,950,121	42,664,202
3 months or less but not repayable on demand	108,535,046	–	108,535,046
1 year or less but over 3 months	43,877,738	–	43,877,738
5 years or less but over 1 year	1,000,000	–	1,000,000
	<u>£176,126,865</u>	<u>£19,950,121</u>	<u>£189,731,973</u>
<b>Analysis of Connected Deposits:</b>			
Due to Parent Undertakings	104,201,800	19,739,437	123,941,237
Due to Fellow Subsidiary Undertakings	4,323,188	–	4,323,188
Due to Associated Undertakings	43,434,602	210,684	43,645,286
	<u>£151,959,590</u>	<u>£19,950,121</u>	<u>£171,909,711</u>
The composition of Parent, Subsidiary and Associated Undertakings is explained in Note 9(a).			
<b>15. OTHER LIABILITIES</b>		<b>2011</b>	<b>2010</b>
		<b>£</b>	<b>£</b>
Basic rate tax deducted at source		214	164
Corporation Tax Payable		10,320	44,636
Sundry Creditors		14,210	12,104
		<u>£24,744</u>	<u>£56,904</u>
<b>16. ACCRUALS AND DEFERRED INCOME</b>			
Accrued interest payable		361,154	241,890
Other accruals		70,399	137,467
		<u>£431,553</u>	<u>£379,357</u>

## Notes to the Accounts – continued

17. PROVISIONS FOR LIABILITIES AND CHARGES	2011 £	2010 £
<b>Accelerated capital allowances :</b>		
Asset at start of year	(1,219)	(7,097)
Deferred tax charged to profit and loss account for the Year (Note 6)	1,568	5,878
Liability/(Asset) at end of year	<u>£10,349</u>	<u>£(1,219)</u>

The deferred tax asset position at 31 March 2010 is reflected under Other Assets (Note 12).

### 18. SUBORDINATED LIABILITIES

The Salvation Army Trustee Company	490,000	490,000
The Salvation Army International Trustee Company	510,000	510,000
	<u>£1,000,000</u>	<u>£1,000,000</u>

Subordinated liabilities consist of loans from the Bank's members which were received in December 1992. The loan agreements are without final repayment date and specify that repayment can only be made at the Bank's discretion and provided that the Bank would continue to be solvent after repayment and able to discharge all other liabilities in full.

The loans were extended to ensure Reliance Bank's compliance with the European Community's Second Banking Co-ordination Directive and, as the loan agreements satisfy stipulated criteria, the loans are considered Tier 2 capital for the purpose of assessing capital adequacy.

The loans carry interest at 1% above the Bank's base rate. The interest charges arising are reflected under interest payable and in the current year amount to £15,000 (2010: £15,368).

### 19. CALLED UP SHARE CAPITAL

Authorised:		
£1 Ordinary Shares	<u>£5,000,000</u>	<u>£5,000,000</u>
Allotted, Called Up and Fully Paid:		
£1 Ordinary Shares	<u>£3,500,000</u>	<u>£3,500,000</u>
The Share Capital of Reliance Bank Limited is held as follows:		
The Salvation Army International Trustee Company	1,785,000	1,785,000
The Salvation Army Trustee Company	1,715,000	1,715,000
	<u>£3,500,000</u>	<u>£3,500,000</u>

The Salvation Army International Trustee Company's holding (51%) is held for the benefit of the International Trust of The Salvation Army, whilst The Salvation Army Trustee Company's holding (49%) is held for the benefit of The Central Trust of The Salvation Army UK Territory.

### 20. PROFIT AND LOSS ACCOUNT

Brought Forward at 1 April 2010	2,989,068	2,845,713
Profit for the year after taxation	152,120	647,105
Gift Aid Donations	(116,460)	(503,750)
Carried Forward at 31 March 2011	<u>£3,024,728</u>	<u>£2,989,068</u>

## Notes to the Accounts – continued

### 21. MOVEMENT ON SHAREHOLDERS' FUNDS

	Share Capital £	Profit and Loss £	Total Share- Holders' Funds £
Balance at 1 April 2010	3,500,000	2,989,068	6,489,068
Profit for the year after taxation	–	152,120	152,120
Gift Aid Donations Payable for the Year	–	(116,460)	(116,460)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2011	<b>£3,500,000</b>	<b>£3,024,728</b>	<b>£6,524,728</b>
	<hr/>	<hr/>	<hr/>
Balance at 1 April 2009	3,500,000	2,845,713	6,345,713
Profit for the year after taxation	–	647,105	647,105
Gift Aid donations payable for the Year	–	(503,750)	(503,750)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2010	<b>£3,500,000</b>	<b>£2,989,068</b>	<b>£6,489,068</b>
	<hr/>	<hr/>	<hr/>

### 22. PENSION COSTS

Reliance Bank contributes to The Salvation Army Employees' Pension Fund in respect of those members of staff that are eligible and have decided to join the scheme. The scheme is a funded defined benefit scheme. It is subject to triennial actuarial valuation, the most recent valuation performed as at 31 March 2009. The existing defined benefits scheme is being closed to new members as at 31 December 2011 when a new defined contributions scheme will be introduced.

The scheme is a multi-employer scheme and as the actuary has confirmed that it is not practical to allocate the assets and liabilities of the scheme between participating employers, in accordance with FRS 17, Reliance Bank accounts for Pension Costs on the date payments to the Scheme fall due. Costs charged in the current year are disclosed in Note 4. Thirteen of the Bank's employees are members of this pension scheme out of a total of 1,039 active members.

On the basis of certain assumptions, the actuary has estimated the market value of the Fund's assets at 31 March 2011 to be £88.654m (2010: £77.257m) whilst the actuarial value of the fund's liabilities amounted to £83.363m (2010: £81.499m) giving rise to a surplus as defined by FRS17 of £5.291m (2010: deficit of £4.242m).

In March 2009 Reliance Bank made a one-off contribution of £200,000 to The Salvation Army Employees' Pension Fund to address the actuary's estimate of the Bank's share of the multi-employer scheme's deficit at 31 March 2009. In the event this proved to represent an over-funding of the fund's deficit by Reliance Bank. As a result, employer contributions (from April 2010 to December 2011) are being reduced to bring the Bank's contributions in line with other employer members of the scheme. The underlying employer contributions rate for all employer members increased from 12.4% to 12.9% from 1 April 2010.

### 23. CONTINGENT LIABILITIES AND COMMITMENTS

	2011 Contract Amount £	2010 Contract Amount £
Contingent Liabilities:		
Guarantees	7,524,000	7,742,288
Commitments		
Undrawn formal standby facilities of one year or less or unconditionally cancellable	7,553,624	9,930,331
	<hr/>	<hr/>
	<b>£15,077,624</b>	<b>£17,672,619</b>
	<hr/>	<hr/>

Guarantees extended to third parties are in respect of activities undertaken by The Salvation Army, its related organisations and two subsidiaries of The Salvation Army UK Territory Central Trust. The current level of guarantees reflects a £7.5m guarantee extended to the Homes & Communities Agency on behalf of The Salvation Army UK Territory Social Work Trust.

As a matter of course the Bank takes counter guarantees to cover guarantees extended on behalf of customers. The Bank controls designated deposits sufficient to offset any guarantees extended.

Included under commitments is an undrawn facility of £4,491,768 (2010: £6,191,937) extended to The Salvation Army UK Territory Central Trust for the purpose of, or in connection with, the purchase, repair, enhancement or extension of property belonging to The Salvation Army.

## Notes to the Accounts – continued

### 24. RECONCILIATION OF OPERATING PROFIT TO NET OPERATING CASHFLOWS

	2011 £	2010 £
Operating Profit	174,008	697,619
(Increase)/Decrease in prepayments and accrued income	(239,907)	902,317
Increase/(Decrease) in accruals and deferred income	52,196	(259,022)
Movement in provision for bad debts	123,106	6,794
Appreciation in value of fixed asset investments	(1,548)	–
Depreciation	139,229	152,024
Interest on subordinated loans	15,000	15,368
Increase/(Decrease) in other liabilities	2,156	(39,509)
Decrease in other assets	2,649	5,505
	266,889	1,481,096
Increase in loans and advances to customers before provisions	(4,441,846)	(6,099,453)
Net Increase/(Decrease) in customer accounts	6,345,013	(23,378,396)
	£2,170,056	£(27,996,753)
	£2,170,056	£(27,996,753)

### 25. RETURNS ON INVESTMENT AND SERVICING OF FINANCE

Interest paid on subordinated liabilities	£(15,000)	£(15,368)
	£(15,000)	£(15,368)

### 26. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

Purchase of Sterling Certificates of Deposit	(158,800,000)	(232,000,000)
Maturity of Sterling Certificates of Deposit	162,000,000	265,000,000
Purchase of investment securities	(2,969,334)	–
Purchase of tangible fixed assets	(106,645)	(151,838)
Net movement in loans and advances to banks not recoverable on demand	(17,271,158)	9,250,768
	£(17,147,137)	£42,098,930
	£(17,147,137)	£42,098,930

### 27. ANALYSIS OF GIFT AID

Gift Aid Paid	180,000	515,100
Debtors brought forward	12,550	1,200
Debtors carried forward	(76,090)	(12,550)
	£116,460	£503,750
	£116,460	£503,750

### 28. ANALYSIS OF THE MOVEMENT IN NET FUNDS

	At 1/4/10 £	Cashflow £	At 31/3/11 £
Cash and balances at central bank	8,463	(5,529)	2,934
Loans and advances to banks recoverable on demand	26,689,399	(15,211,188)	11,478,211
	£26,697,862	£(15,216,717)	£11,481,145
	£26,697,862	£(15,216,717)	£11,481,145
	At 1/4/09 £	Cashflow £	At 31/3/10 £
Cash and balances at central bank	8,558	(95)	8,463
Loans and advances to banks recoverable on demand	13,283,463	13,405,936	26,689,399
	£13,292,021	£13,405,841	£26,697,862
	£13,292,021	£13,405,841	£26,697,862

## Notes to the Accounts – continued

29. DIRECTORS' AND CONNECTED PERSONS' ACCOUNTS	2011 £	2010 £
Aggregate amounts due, as at 31 March, from		
– Directors	137,943	162,597
– Connected Persons	–	–
	<b>£137,943</b>	<b>£162,597</b>
Aggregate amounts due, as at 31 March, to		
– Directors	57,154	23,530
– Connected Persons	9,578	4,352
	<b>£66,732</b>	<b>£27,882</b>
Maximum aggregate amounts due, during the year, from		
–Directors	175,620	175,620
– Connected Persons	–	–
	<b>£175,620</b>	<b>£175,620</b>
Maximum aggregate amounts due, during the year, to		
– Directors	57,154	25,736
– Connected Persons	9,578	4,284
	<b>£66,732</b>	<b>£30,020</b>

In accordance with FRS8 "Related Party Disclosures", the Bank's directors and any person who may be expected to influence, or be influenced by the Director are considered related parties. Any loans to Directors are extended in the normal course of business and at terms that are no more favourable than the terms available to other employees of the Bank. Any loans to Connected Persons are extended in the normal course of business on non-preferential terms available to other customers. No preferential credit interest rates are applied to Directors' accounts or to accounts of Connected Persons.

### 30. RELATED PARTY TRANSACTIONS

As indicated in Note 19, the Bank's share capital is jointly held by The Salvation Army Trustee Company and The Salvation Army International Trustee Company in trust for The Salvation Army UK Territory Central Trust and The Salvation Army International Trust respectively. The majority of the Bank's business is conducted with its parents, fellow subsidiaries and associated undertakings. All transactions with group undertakings are carried out on a commercial basis.

Two floors of the Bank's premises were let to The Salvation Army throughout the year. Rental income and service charges are disclosed as other operating income.

### 31. CAPITAL COMMITMENTS

At the Balance Sheet date there were no capital commitments (2010: £Nil).

### 32. CURRENCY EXPOSURES

The Bank has limited exposure to exchange rate risk as it holds assets and liabilities denominated in foreign currency and converts any excess reserves on a regular basis.

The Bank's foreign exchange exposures at the year end were as follows:

	2011		2010	
	\$	Euro	\$	Euro
Monetary Assets	16,647,248	238,788	16,855,150	172,232
Monetary Liabilities	(16,647,104)	(238,788)	(16,853,884)	(172,232)
Net Monetary Assets	\$144	–	\$1,266	–
Translated At	1.6100	1.1326	1.5136	1.1255
Sterling Equivalent	£91	–	£837	–

The only other foreign currency transactions undertaken are translations of sums on behalf of customers and in each instance the customer bears any currency risk involved.

## Notes to the Accounts – continued

### 33. INTEREST RATE SENSITIVITY GAP ANALYSIS

Part of the Bank's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are contractually reset to market rates or, if earlier, the date on which the instruments mature. The table below summarises these re-pricing mismatches on the Bank's non-trading book as at 31 March 2011 (the Bank does not maintain a trading book). Items are allocated to time spans by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

	Not more than three months £	More than three months but not more than six months £	More than six months but not more than one year £	More than one year but not more than five years £	More than five years £	Non-Interest Bearing £	Total £
<b>Year Ended 31 March 2011</b>							
<b>Assets:</b>							
Cash and Balances at Central Bank	–	–	–	–	–	3	3
Loans and Advances to Banks	29,826	17,591	13,242	–	–	–	60,659
Loans and Advances to Customers	42,647	11	276	1,591	30	–	44,555
Debt Securities	47,000	10,000	34,800	–	2,971	–	94,771
Other Assets	–	–	–	–	–	4,080	4,080
<b>Total Assets</b>	<b>119,473</b>	<b>27,602</b>	<b>48,318</b>	<b>1,591</b>	<b>3,001</b>	<b>4,083</b>	<b>204,068</b>
<b>Liabilities:</b>							
Customer Accounts	123,745	21,147	24,594	1,000	–	25,591	196,077
Other Liabilities	–	–	–	–	–	466	466
Subordinated Liabilities	1,000	–	–	–	–	–	1,000
Shareholders' Funds	–	–	–	–	–	6,525	6,525
	<b>124,745</b>	<b>21,147</b>	<b>24,594</b>	<b>1,000</b>	<b>–</b>	<b>32,582</b>	<b>204,068</b>
Interest Rate Sensitivity Gap	(5,272)	6,455	23,724	591	3,001	(28,499)	–
Cumulative Gap	(5,272)	1,183	24,907	25,498	28,499	–	–
<b>Year Ended 31 March 2010</b>							
Interest Rate Sensitivity Gap	20,688	(8,162)	13,468	272	54	(26,320)	–
Cumulative Gap	20,688	12,526	25,994	26,266	26,320	–	–

Movements in the sensitivity gap this year are predominantly the result of changes in the maturity profile of the Bank's Sterling Certificates of Deposit and bank deposits, with a lower proportion of assets available on-demand with a variable rate of interest or available within 3 months on a fixed rate of interest. The Bank controls interest rate risks by the methods outlined in the Risk Management summary on Pages 8 and 9.

Founder:  
William Booth

Office of  
The General



International Headquarters  
London EC4V 4EH

## GREETING FROM GENERAL LINDA BOND

Reliance Bank is known for its integrity. Integrity has to do with honesty, goodness, unity, morality. Yet a bank itself does not have integrity. Its reputation is based on the degree to which its staff line up with its essential values and mission and live these out consistently. The staff reflect the conviction of the international Salvation Army, that we must not divorce conduct from character. What we believe must be lived out in the most practical ways in our service to the public. Our Christian principles shape how we do business.

At a time in our world, when we have distressed with the deceit and greed in those whom we trusted, we need transparency, consistency and selfless service. We need integrity. Trustworthiness. I have no hesitation in commending this latest Annual Report as evidence that Reliance Bank rises to the highest standards of professionalism undergirded by its core values.

I commend the Board of Directors, the management and staff for their dedication, for their individual contribution and their team approach to meeting the customer's needs.

Linda Bond  
**GENERAL**



# The Salvation Army

## WORLDWIDE FACTS AND FIGURES AT A GLANCE

<b>PERSONNEL</b> .....	2011
Officers	
Active .....	17,070
Retired .....	9,174
<b>TOTAL</b> .....	26,244

Auxiliary captains .....	237
Short Term, Full time Non Officer Personnel .....	316
Envoys/sergeants [full time].....	1,183
Employees .....	109,518
Cadets.....	1,173

### FIELD PROGRAMME

Corps .....	8,580
Societies, outposts, new plants, recovery churches.....	7,185
Goodwill centres .....	375
Senior soldiers .....	1,132,792
Adherents .....	179,106
Senior and young people's corps local officers .....	139,415
Corps cadets.....	41,886
Senior band musicians .....	27,981
Senior songsters .....	104,922
Other senior music groups – members .....	101,019
Women's Minstries [all groups] – members .....	648,269
League of Mercy – members .....	133,699
SA Medical Fellowship – members .....	7,757
Over 60's Clubs – members .....	99,126
Men's Fellowships – members .....	62,358
Senior Youth Groups – members .....	111,945
Corps based community development programmes .....	2,570
Beneficiaries/clients.....	750,664
Recycling centres .....	18
Thrift stores/charity shops (Corps/territorial .....	1,756
Sunday School members.....	627,295
Junior soldiers.....	383,349
Young people's bands – members .....	63,686
Young people's singing companies – members .....	85,981

Other Y.P. musical groups – members .....	107,886
Junior youth groups scouts/guides/etc. & clubs – members .....	405,005

### SOCIAL PROGRAMME

#### *Residential*

Hostels for the homeless and transient.....	422
capacity .....	24,464
Emergency lodges .....	381
capacity .....	19,074
Children's homes.....	244
capacity .....	9,966
Homes for the elderly.....	173
capacity .....	10,969
Homes for the disabled .....	48
capacity .....	1,650
Homes for the blind.....	7
capacity .....	295
Remand & probation homes .....	37
capacity .....	878
Homes for street children.....	33
capacity .....	632
Mother and baby homes .....	49
capacity .....	1,268
Training centres for families .....	16
capacity .....	468
Care homes for vulnerable people .....	78
capacity .....	2,229
Women and men's refuge centres.....	66
capacity .....	1,965
Other residential care homes/hostels .....	182
capacity .....	2,372

#### *Day Care*

Community centres .....	630
capacity .....	162,164
Early childhood education centres.....	111
capacity .....	5,560
Day centres for the elderly.....	104
capacity .....	3,797
Play groups .....	73
capacity .....	1,608
Day centres for the hearing impaired .....	6
capacity .....	193
Day centres for street children.....	15
capacity .....	968
Day nurseries .....	135
capacity .....	9,709
Drop in centres for youth.....	118
capacity .....	227,900
Other day care centres.....	387
capacity .....	15,119





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