

The **co-operative** insurance
good with money

CIS General Insurance Limited
Support and security in the community.

Financial statements 2009

Business and financial review	2
The Board	4
Report of the Board of directors	6
Independent auditors' report	10
Income statement	11
Statement of comprehensive income	12
Balance sheet	13
Statement of cashflows	14
Statement of changes in equity	15
Basis of preparation and significant accounting policies	16
Risk management	22
Capital management	30
Critical judgments and estimates	31
Notes to the financial statements	34

Business and financial review

CIS General Insurance Limited (CISGIL) was incorporated in September 2005 and capitalised on 15 January 2006 as part of the restructure of Co-operative Insurance Society Limited (CIS). CISGIL is an Industrial and Provident Society established to transact all new and renewing general insurance business formerly written by CIS. CISGIL has also assumed responsibility for the benefits and burdens arising from the run-off of general insurance liabilities of CIS under the terms of an indemnification agreement.

CISGIL and its parent group The Co-operative Financial Services (CFS) have emerged relatively unscathed from the global crisis prompted by the 'credit crunch' and the ensuing worldwide recession. This was no accident – our business is underpinned by a set of principles we call givens, amongst which is an absolute commitment to be financially prudent and strong.

Indeed, that financial strength is essential if we are to deliver on our pledge to put our members and customers first in all that we do. This is reflected in our continued strong levels of liquidity, capital and profitability. As many competitors are forced to consider retrenchment, both CISGIL and CFS have been able to set out a strategy for growth, underpinned by strong capital reserves. Our business model demonstrates that ambition and prudence are not mutually exclusive.

The merger of CFS with Britannia Building Society has created the UK's most diversified, mutual financial services provider. Merging two complementary businesses driven by shared givens and values, offers the UK consumer a member-owned, customer-led and ethically-guided alternative to the shareholder-owned or increasingly state-owned model so publicly called into question by the 'credit crunch'. Moreover, the merger delivers increased reach, diversity and opportunity without impairing the financial stability of the business or the interests of our customers.

Highlights

The General Insurance business has delivered profits of £1.5m in 2009 (compared to a loss of £26.8m for 2008).

Results summary

	2009	2008	Change	Change
	£m	£m	£m	%
Net earned premiums	375.4	382.8	(7.4)	(1.9%)
Claims	(280.8)	(265.0)	(15.8)	(6.0%)
Investment return	64.5	32.2	32.3	100.3%
Commission and expenses	(139.8)	(138.5)	(1.3)	(0.9%)
Other income	4.2	1.8	2.4	133.3%
Finance costs	(3.5)	(7.3)	3.8	52.1%
Operating profit before taxation and significant items	20.0	6.0	14.0	233.3%
Profit based payments to members of The Co-operative Group	(3.0)	(1.9)	(1.1)	(57.9%)
Profit before taxation and significant items	17.0	4.1	12.9	314.6%
Significant items	(15.5)	(30.9)	15.4	49.8%
Profit/(loss) before taxation	1.5	(26.8)	28.3	105.6%
Gross written premiums	424.3	394.4	29.9	7.6%
Claims ratio	74.8%	69.2%	–	(5.6%)
Commission and expense ratio (excluding non-recurring expenses)	37.2%	36.2%	–	(1.0%)
Combined ratio (excluding non-recurring expenses)	112.0%	105.4%	–	(6.6%)

CISGIL had a successful year delivering profits, before significant items and member distribution, of £20.0m. The underlying claims ratio, which excludes the impact of non-standard items including prior year claims releases, exceptional weather items and large claims, has improved to 68.1% from 69.5% in 2008.

Rigorous cost control ensured that costs remained broadly unchanged despite the increase in overall income, new business volumes and associated commissions.

2008 investment returns were impacted by a £26m impairment of investment assets. 2009 figures include a £4.5m recovery on these items and no further impairments have been made.

Gross written premium has improved by £29.9m (8%) to £424.3m. This is predominantly driven by improved pricing and new business written through broker and aggregator channels more than offsetting lower volumes from face to face channels. Retention rates have remained broadly stable, despite economic conditions, reflecting the loyalty of our customer base, the Co-operative Insurance brand and success of retention initiatives.

We have launched a new suite of market leading business insurance products which offer customers the ability to have a policy tailored to suit their individual business requirements, as customers can choose from packaged or bespoke policies. We have implemented the final phase of our commercial insurance strategy with web sales capability now live. Following the creation of a home insurance broker panel by SAGA, CISGIL was one of only ten insurers chosen for the panel. We have also delivered full 'quote and close' capabilities for our home product in bank branches.

Through the launch of home insurance into our bank branches, CISGIL has continued its development towards becoming a true multi-channel manufacturer and distributor for personal lines insurance. From being a single channel distributor a few years ago, the distribution mix is now well balanced with roughly a third of new business from face to face and direct, a third via Internet based sales, and a third from national brokers.

The claims ratio for 2009 was 74.8% compared with 69.2% in 2008. Claims have been impacted by increased costs on large motor claims and periodic payment cases largely from exposures in earlier years. The Courts Act 2003 gave the courts the power to impose periodic payments, and was aimed at promoting their widespread use. Under periodic payments a claimant receives an indexed amount each year for the rest of their life rather than a lump sum. The number of such settlements is increasing and, after assessing this trend, CISGIL has increased its reserves accordingly. The underlying claims ratio was 68.1%, slightly favourable to 2008 (69.5%).

Customer satisfaction with our general insurance products is at 74.9%, nearly 9% higher than the average for the Top Five in the market. We won the 'Best Direct Motor Insurance Provider 2009' awarded by Your Money, the 'Corporate and Social Responsibility Project of the Year' award at the British Insurance awards, and a Claims platinum award.

Investment in the future

Following the 'merger from strength' between Britannia Building Society and CFS, the business has revisited its purpose, givens, vision and values. CFS has restated its vision of becoming the UK's most admired financial services business, and is reinforcing that vision with significant investment in its people, processes, products and services.

A significant investment has been agreed over the next three years to create the process infrastructure the business requires, to deliver an easy, responsible, fair and personal service to all customers, however they access those services. This banking transformation programme will help transform our customer proposition over the next three years.

In tandem with this programme of investment, the business continues to deliver significant underlying cost reductions. Simplified business processes, enhanced cross-selling and service capabilities and a rationalisation of service functions will help drive down operating costs while delivering first-class service.

The development of a single organisation from two heritage businesses has progressed at a fast pace, with a joint executive and senior management structure already in place. The process will continue through the first half of 2010.

Summary and outlook

CISGIL has had a successful year, delivering profits of £1.5m as against a loss in 2008. A review of both pricing and distribution strategies has contributed to increased profitability, while improved claims ratios have helped to keep costs down. Above all, our excellent relationship with our customers has been strengthened with developments in both our product range and our multi-channel distribution reach.

Market rate increases for motor insurance started to accelerate in 2009, with a number of market commentators noting an underlying lack of profitability in this sector. The AA Average Premium Index saw its highest year on year increase in motor premiums since its records began in 1994. Rates have continued to increase in 2010, and market commentators are expecting this to continue until at least the end of quarter two, as insurers seek to strike the correct balance between the levels of premiums and claims.

CIS General Insurance Limited

Non-executive directors:

- Steve Watts** (MA (Cantab), MA (Econ), BA (Hons)). Age 58. Joined the Board in 2005 and appointed chair in 2009. Member of the Central and Eastern Regional Board. Pricing, research, and information Officer within the Directorate of Employment and Skills at Cambridge Regional College. Deputy chair of Co-operative Group Limited and Co-operative Financial Services Limited. Chair of Co-operative Insurance Society Limited and non-executive director of The Co-operative Bank plc.
- Rodney Baker-Bates** (MA, FCA, AIMC, FCIB). Age 65. Joined the Board in 2009*. Directorships also held at Assura Group plc, Bedlam Asset Management plc, Dolphin Square Trust Limited, EG Solutions plc, G's Group Holding Limited, Stobart Group plc. Non-executive director of Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited.
- Duncan Bowdler** (BSc (Hons)). Age 51. Joined the Board in 2009. Trade liaison manager. Member of The Co-operative Group North West and North Midlands Regional Board. Non-executive director of Co-operative Group Limited, Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited.
- Bob Burlton** (BSc (Hons), Cert Dip). Age 61. Joined the Board in 2005. President of Consumer Co-operatives Worldwide since 2005. Chair of Co-operative Financial Services Limited, The Co-operative Bank plc and non-executive director of Co-operative Insurance Society Limited.
- David Davies** (BSc (Econ), FIA). Age 62. Joined the Board in 2005 and is the senior independent director. Chair of Sun Life Assurance Company of Canada (UK) and Nortel Networks Pension Scheme in the UK and non-executive director of Interglobal Insurance Company Limited. Non-executive director of Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited.
- Paul Flowers** (BA (Hons)). Age 59. Superintendent Methodist minister/Bradford city councillor. Joined the Board in 2009. Member of The Co-operative Group North Regional Board. Non-executive director of Co-operative Group Limited, Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited.
- Peter Harvey** (ACIB, Dip FS). Age 54. Joined the Board in 2009*. Consultant to Berwin Leighton Paisner LLP. Also non-executive director at Marshalls Holdings Limited and a member of the supervisory board and audit committee of Surrey Cricket Club Limited. Non-executive director of Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited.
- Paul Hewitt** (MA, ACA, Dip German (Open)). Age 54. Joined the Board in 2005. Non-executive director of Kiln Group, Collins Stewart plc, and the Personal Accounts Delivery Authority. Chairman of Portrait Software plc and the Good Care Group Limited. Industrial partner with Lyceum Capital, a mid market private equity firm. Non-executive director of Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited.
- Chris Jones** (LLB). Age 57. Joined the Board in 2009*. Member of the Institute of Credit Management, the Law Society and a Fellow of the Royal Society of Arts and of the Association of Business Recovery Professionals. Runs Tourmalet Consulting, specialising in business turnaround. Non-executive director of Agenda Management Services Limited, Trango Limited, The Business Desk and Armitage Jones LLP. Non-executive director of Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited. Chair of Illius Properties Limited.
- Stephen Kingsley** (BSc (Hons), FCA). Age 57. Joined the Board in 2009*. Over 35 years experience in financial services primarily auditing and consulting. Has held senior positions at Arthur Andersen and AON Corporation. Currently a senior managing director at FTI Consulting, the global expert services firm. Non-executive director of Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited.
- Peter Marks** Age 60. Joined the Board in 2009. Chief executive of Co-operative Group Limited. Named Orange Leader of the Year 2009 in the National Business Awards. Entire working life spent within the co-operative movement. Instrumental in bringing about a number of major co-operative mergers over the past decade. Non-executive director of Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited.
- Bob Newton** (BSc, FIA, CDir). Age 60. Joined the Board in 2007. Retired from the insurance industry in 2006, since when he has built a portfolio of business and pro bono interests. Holds non-executive directorships with UIA (Insurance) Limited, and AI Claims Solutions plc. Non-executive director of Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited.

Ben Reid (FCCA). Age 55. Joined the Board in 2009. Chief executive of the Midcounties Co-operative. Regional chair of the Learning and Skills Council and also chair of Walsall Hospitals NHS Trust. Non-executive director of Co-operative Group Limited, Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited.

Len Wardle (BA). Age 65. Joined the Board in 2005. Chair of Co-operative Group Limited and member of the South East Regional Board. Held management positions in local government and latterly was a Fellow at the University of Surrey in the School of Management. Director of Communicate Mutuality Limited. Non-executive director of Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited.

Martyn Wates (ACA, ATII, BA (Hons)). Age 43. Joined the Board in 2007. Chief financial officer, Co-operative Group Limited. Has held various senior finance positions within the co-operative movement. Director of various internal subsidiaries and non-executive director of Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited.

Piers Williamson (BA (Hons) ACIB, MCT). Age 48. Joined the Board in 2005. Over 25 years' experience of the UK, US and European financial markets. Holds non-executive directorships with various Industrial and Provident Societies and funding vehicles associated with the Housing Finance Corporation, where he is chief executive. Non-executive director of Co-operative Financial Services Limited, The Co-operative Bank plc, and Co-operative Insurance Society Limited.

Executive directors:

Neville Richardson (BA (Hons), FCA). Age 52. Joined the Board in 2009*. Chief executive. Prior to joining the group was chief executive of Britannia Building Society. Director of Mutuo (Communicate Mutuality Limited). Member of the Court of the University of Lancaster and of the Building Societies Association Council. Also chief executive of Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited.

Rod Bulmer (BA (Hons), MSc). Age 40. Joined the Board in 2009. Managing director, retail. Joined Co-operative Financial Services in October 2007 and became sales director in July 2008. Executive director of Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited. Also chair of The Co-operative Academy of Manchester.

Tim Franklin (ACIB). Age 48. Joined the Board in 2009*. Chief operating officer. Formerly managing director of Member Business at Britannia Building Society. Executive director of Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited.

Phil Lee (BSc, CA). Age 54. Joined the Board in 2009*. Integration and change director. Formerly managing director of Britannia Capital Investment Group. Executive director of Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited.

John Reizenstein (MA (Cantab)). Age 53. Joined the Board in 2005. Managing director, corporate and markets. Member of the Financial Reporting Review Panel. Executive director of Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited. Chair of The Co-operative Asset Management Limited.

Barry Tootell (BA, FCA). Age 48. Joined the Board in 2008. Chief financial officer. Qualified accountant with over 20 years' finance and control experience. Chair of CFS Management Services Limited. Executive director of Co-operative Financial Services Limited, The Co-operative Bank plc and Co-operative Insurance Society Limited.

*Formerly on the Board of Britannia Building Society

Report of the Board of directors

Business review

CISGIL was incorporated on 29 September 2005 to transact general insurance business formerly transacted by Co-operative Insurance Society Limited (CIS), a fellow subsidiary society forming part of the CFS Group. CISGIL commenced trading on 15 January 2006 following a restructuring of the group. A review of the development and performance of CISGIL during the financial year and any significant events since the year end are set out on pages 2 and 3. The principal risks and uncertainties facing CISGIL are set out in the risk management section on pages 22 to 29, CISGIL's key financial and non-financial performance indicators are described below.

Principal activities

The principal activities of CISGIL are that of providing general insurance services.

Change in accounting reference date

Following the 'merger from strength' between Britannia Building Society and The Co-operative Financial Services (CFS) on the 1 August 2009 and in line with the ultimate parent company, the Co-operative Group Limited, CISGIL has changed its accounting reference date to 31 December.

The 2009 year reflects 355 days which has been stated as 51 weeks. 2008 reflects a 52 week period (365 days).

Changes to the Board

The names of the present members of the Board and their biographies and details of length of service are set out on pages 4 and 5.

The directors of the Society during the financial year are listed below. They were appointed for the full period unless otherwise indicated:

Non-executive directors:	Date of appointment	Date of resignation
Steve Watts (chair)		
Rodney Baker-Bates	1 August 2009	
Graham Bennett		6 June 2009
Duncan Bowdler	8 July 2009	
Bob Burlton		
Simon Butler		6 June 2009
David Davies		
Paul Flowers	8 June 2009	
Peter Harvey	1 August 2009	
Paul Hewitt		
Chris Jones	1 August 2009	
Stephen Kingsley	1 August 2009	
Peter Marks	9 June 2009	
Terry Morton		6 June 2009
Bob Newton		
Ben Reid	8 June 2009	
Kathryn Smith		6 June 2009
Graham Stow		31 May 2009
Len Wardle		
Martyn Wates		
Piers Williamson		
Executive directors:		
David Anderson		31 July 2009
Neville Richardson (chief executive)	1 August 2009	
Rod Bulmer	1 August 2009	
Tim Franklin	1 August 2009	
Phil Lee	1 August 2009	
Dick Parkhouse		31 July 2009
John Reizenstein		
Barry Tootell		

Election of directors

The directors of the Board are elected by the members in accordance with the rules of the Society.

Re-appointment of directors

Under the Rules of the Society, with the exception of the executive directors, the directors are appointed for a three year term starting on the day after the Annual General Meeting (AGM) at which they are appointed. The Rules of the Society were amended in July 2009, to make provisions for the merger with Britannia, including the appointment arrangements for the former non-executive Britannia directors (Rodney Baker-Bates, Peter Harvey, Chris Jones and Stephen Kingsley). None of the former Britannia directors are required to put themselves forward for re-appointment during the three years following the merger date (1 August 2009). At the AGM in May 2010, David Davies, Paul Hewitt, Bob Newton and Piers Williamson will be eligible for re-appointment.

The Rules were also amended to provide that if any former Britannia director ceases, for whatever reason, to be a director during the period of three years following the merger date no person will be appointed to fill that vacancy without the prior approval of a majority of the former Britannia directors who are still directors at that time.

The AGM will be held on 12 May 2010.

Directors and officers' liability insurance and indemnity

CISGIL maintains appropriate directors' and officers' liability insurance cover, through the ultimate parent organisation, in respect of legal action against its directors and officers. The arrangements for this are currently under review.

The directors, the Secretary and any of the Society's approved persons under the Financial Services and Markets Acts 2000 from time to time have entered into a contract of indemnity with the Society in respect of certain liabilities they may incur whilst discharging their functions.

Directors and their interests

No director had a material interest at any time during the year in any contract of significance, other than a service contract, with CISGIL.

No director had a beneficial interest in any shares in the Co-operative Group Limited, which is the ultimate holding organisation, or in any other entity controlled by the Co-operative Group Limited.

Results and distributions

General insurance gross written premiums were £424.3m (2008: £394.4m) and net earned premiums were £375.4m (2008: £382.8m).

Profits of £1.8m (2008: losses of £19.2m) have been transferred to reserves.

No interim dividend was paid during 2009 (2008: £nil). A final dividend of £41.0m in respect of 2007, was paid in 2008. The directors recommend the payment of a final dividend of £55.0m (2008: £nil) on 12 May 2010.

Key performance indicators

The CFS Group has introduced a balanced scorecard that reflects its goals as a business over its three-year corporate plan. The balanced scorecard is used to measure our success in delivering our strategy, by measuring each business area's performance across four areas: financial, customer, people and process. This ensures we all measure our performance and management across the whole breadth of the strategy, rather than just one aspect of it.

Financial

The key financial performance measure is profitability. Additional supplementary measures are general insurance claims ratio and combined ratio.

Profitability is defined as profit before significant items and tax and is the key financial performance measure in the CFS Group. CISGIL underwriting results and profits were adverse to target as a result of increased costs on large claims and periodic payment cases.

Claims ratio is calculated as net claims incurred divided by net earned premium. The ratio of 74.8% was adverse to our target of 70.4% for 2009.

Combined ratio is the ratio of net claims incurred, commission and expenses to net earned premium. The ratio of 112.0% was adverse to our target of 107.2%. Commission and expenses were in line with plan but claims costs were adverse to plan as noted above.

Customer

Our current measurement of overall customer satisfaction is derived from GFK NOP's syndicated Financial Research Survey (FRS). The FRS is the largest survey in the marketplace (with 60,000 financial services customers interviewed each year).

Customers register their satisfaction levels with their providers at product level on a seven point scale, these are then weighted by customer numbers to produce Business Unit level scores and an overall measure for CFS. To ensure a statistically robust sample per CFS product area and to even out any seasonal variations in scores, a rolling 12 month's worth of data is used.

Report of the Board of directors

Customer (continued)

A target measure of 78.7% was set at the start of 2009 with CFS achieving a score of 74.9% at the end of December. Compared to the Top Five competitors by market share general insurance business has fared better, with a score for extremely/very satisfied of 74.9% compared to 66.3%.

People

At CFS we are very aware that our success is driven by our people, and throughout 2009 we pursued a number of strategies to increase the engagement levels among colleagues.

In common with many businesses across the world, we use a colleague opinion survey – in our case, the survey is called ECHO (Every Colleague Has Opinions) to measure how many of our people are engaged with the business.

Engagement is based on emotional attachment to the organisation, willingness to stay with the organisation and discretionary effort – how much colleagues are motivated to go beyond their normal duties to help the organisation achieve its aims. These measures are often referred to as 'Say, Stay and Strive', and our ECHO survey shows us what proportion of our colleagues feel positive across all three elements.

This proportion is known as our Engagement Index (EI), and in 2009 the EI score was 87%, an increase of 23 percentage points from the previous year. This represents remarkable progress against our strategic plan, which was to increase the EI score by five percentage points per year, and demonstrates the effectiveness of the corporate strategies in 2009.

Process

The CFS Group has a key initiative to limit risks across the business. Risk limits are thresholds we should operate within if we want our business to be effective. Risk limits can be set on some of our financial measures (like bank and general insurance capital buffers and liquidity) or on processes (like our adherence to the business continuity policy). This measure monitors our compliance with these limits; success means we do not breach any of them. Further details of CISGIL's risk management indicators can be found on pages 22 to 29.

Staff

On 6 April 2006 all contracts of employment between CISGIL and its employees were transferred to CFS Management Services Limited (CFSMS), a fellow subsidiary of the CFS Group. As a result CISGIL no longer has any employees and all sales have been affected through financial advisers and staff of CFSMS, which also provides administrative and other services. A management charge is payable to cover the costs of these services.

Corporate responsibility and the environment

The Co-operative Group Sustainability Report, which was published towards the latter half of the 2009 financial period, describes how the Co-operative and CFS Group of companies including Co-operative Insurance Society Limited, CIS General Insurance Limited and The Co-operative Bank plc, manage their social, ethical and environmental impacts.

Political and charitable donations

CISGIL is not directly responsible for the making of charitable donations as this is undertaken by CFSMS, a fellow subsidiary of the CFS Group. CISGIL contributes to the cost through the recharge of costs and services provided by CFSMS. It is the policy of CISGIL that no donations are made for political purposes.

Supplier payment policy and practice

All supplies and services are sourced through CFSMS. A management charge is payable to cover the cost of those services.

Financial statements

So far as the directors are aware, there is no relevant audit information of which CISGIL's auditors are unaware, and the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that CISGIL's auditors have been made aware of that information. A statement by the directors as to their responsibilities for preparing the financial statements is included in the statement of directors' responsibility.

Statement of directors' responsibilities in respect of the report of the Board of directors and the financial statements

The directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable law and regulations.

Industrial and Provident Society Law, as modified by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 (the Regulations), which modified the Industrial and Provident Societies Acts 1965 to 2003, requires the directors to prepare financial statements for each financial year. In accordance with the Regulations, the directors have elected to prepare the Society's financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The Society's financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the Society and the performance for that period. The Regulations, which apply the provisions of the Companies Act 2006, provide in relation to such financial statements that references in the relevant part of the Regulations to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the Society's financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society and The Co-operative Group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that its financial statements comply with the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which modified the Industrial and Provident Societies Acts 1965 to 2003. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and the Group and to prevent and detect fraud and other irregularities.

Under applicable law, the directors are also responsible for preparing a directors' report that complies with the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which modified the Industrial and Provident Societies Acts 1965 to 2003.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of going concern

After making all appropriate enquiries, the directors have a reasonable expectation that the Society 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 Society's financial statements.

Auditors

In accordance with Section 5 of the Friendly and Industrial and Provident Societies Act, 1968, a resolution for the re-appointment of KPMG Audit Plc as auditor of the Society and a resolution to authorise the directors to fix their remuneration are to be proposed at the next AGM.

By order of the Board
Moiria Lees, secretary
16 March 2010

Independent auditors' report

Independent auditors' report to the members of CIS General Insurance Limited

We have audited the Society financial statements (the financial statements) of CIS General Insurance Limited (the Society) for the period ended 31 December 2009, which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of cashflows, the statement of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein and in accordance with the Industrial and Provident Societies Acts 1965 to 2003 as applied to the Society by and as modified by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008.

This report is made solely to the Society's members, as a body, in accordance with the Industrial and Provident Societies Acts 1965 to 2003 and to facilitate compliance with section 496 of the Companies Act 2006, all as applied to the Society by and as modified by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and to facilitate compliance by the Society's directors with the requirement relating to section 496 of the Companies Act 2006, as applied to the Society by Regulation 3 of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Society's directors' responsibility for the preparation of the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the statement of directors' responsibilities on page 9.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2003 as applied to the Society by and as modified by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008. In order to facilitate compliance by the Society's directors with the requirement relating to section 496 of the Companies Act 2006, as applied to the Society by Regulation 3 of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, we also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' report includes that information presented in the Business review, Key performance indicators and Principal risks and uncertainties that is cross referred from the Business review section of the Directors' report.

In addition we report to you if, in our opinion, the Society has not kept adequate accounting records, if we have not received all the information and explanations we require for our audit, or if certain disclosures of directors' remuneration specified by law are not made.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. 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 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 of the state of the Society's affairs as at 31 December 2009 and of the Society's profit for the period then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the financial statements have been prepared in accordance with the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which modify the Industrial and Provident Societies Acts 1968 to 2003; and
- the information given in the Directors' Report is consistent with the financial statements.

Jonathan Holt (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
Manchester
16 March 2010

Income statement

For the period ended 31 December 2009

All amounts are stated in £m unless otherwise indicated

	Notes	Before significant items 2009	Significant items 2009	After significant items 2009	Before significant items 2008	Significant items 2008	After significant items 2008
Income							
Gross earned premiums		396.9	–	396.9	401.3	–	401.3
Less premiums ceded to reinsurers		(21.5)	–	(21.5)	(18.5)	–	(18.5)
Net earned premiums	2	375.4	–	375.4	382.8	–	382.8
Fee and commission income	3	3.6	–	3.6	1.5	–	1.5
Investment income	4	55.9	–	55.9	52.6	–	52.6
Gains less losses arising from financial assets	5	4.1	–	4.1	5.6	–	5.6
Other operating income	6	0.6	–	0.6	0.3	–	0.3
Net income		439.6	–	439.6	442.8	–	442.8
Benefits, losses and expenses							
Claims paid and benefits	7	(320.5)	–	(320.5)	(366.3)	–	(366.3)
Less amounts receivable from reinsurers	7	4.7	–	4.7	4.5	–	4.5
Net policyholder claims paid and benefits		(315.8)	–	(315.8)	(361.8)	–	(361.8)
Change in insurance contract liabilities	21	27.4	–	27.4	90.2	–	90.2
Change in reinsurance assets	21	7.6	–	7.6	6.6	–	6.6
Net policyholder claims and benefits incurred		(280.8)	–	(280.8)	(265.0)	–	(265.0)
Fee and commission expenses	8	(14.0)	–	(14.0)	(10.2)	–	(10.2)
Operating expenses	9	(125.8)	(15.5)	(141.3)	(128.3)	(30.9)	(159.2)
Finance costs		(3.5)	–	(3.5)	(7.3)	–	(7.3)
Operating profit before impairment losses		15.5	(15.5)	–	32.0	(30.9)	1.1
Impairment gains/(losses) on investments	10	4.5	–	4.5	(26.0)	–	(26.0)
Operating profit/(loss)		20.0	(15.5)	4.5	6.0	(30.9)	(24.9)
Profit based payments to individual members of the Co-operative Group		(3.0)	–	(3.0)	(1.9)	–	(1.9)
Profit/(loss) before income tax		17.0	(15.5)	1.5	4.1	(30.9)	(26.8)
Income tax	11	(4.0)	4.3	0.3	(1.2)	8.8	7.6
Profit/(loss) for the financial year		13.0	(11.2)	1.8	2.9	(22.1)	(19.2)

Profits for the financial year are attributable to the equity shareholder.

2009 and 2008 significant items relate to non-recurring expenditure associated with a CFS Group programme of restructuring.

Statement of comprehensive income

For the period ended 31 December 2009

All amounts are stated in £m unless otherwise indicated

		Before significant items 2009	Significant items 2009	After significant items 2009	Before significant items 2008	Significant items 2008	After significant items 2008
Profit for the period	Notes	13.0	(11.2)	1.8	2.9	(22.1)	(19.2)
Movement in fair value of available-for-sale assets transferred to income statement		(6.7)	–	(6.7)	16.7	–	16.7
Valuation gains on available-for-sale assets taken to comprehensive income		45.2	–	45.2	(28.4)	–	(28.4)
Tax on items taken to other comprehensive income	25	(10.8)	–	(10.8)	3.3	–	3.3
Total other comprehensive income		27.7	–	27.7	(8.4)	–	(8.4)
Total comprehensive income		40.7	(11.2)	29.5	(5.5)	(22.1)	(27.6)

Comprehensive incomes for the financial year are attributable to the equity shareholder.

Balance sheet

At 31 December 2009

All amounts are stated in £m unless otherwise indicated

	Notes	2009	2008
Assets			
Deferred acquisition cost	12	36.5	28.6
Reinsurance assets	21	28.6	19.3
Financial investments at fair value through profit or loss	13	22.3	358.1
Available-for-sale assets	14	1,007.4	662.0
Loans at amortised cost	15	–	0.6
Insurance receivables and other assets	16	186.1	185.6
Current tax assets	25	–	22.5
Total assets		1,280.9	1,276.7
Capital and reserves attributable to the Society's equity holders			
Share capital	18	183.0	183.0
Retained earnings	19	(18.0)	(19.8)
Other reserves	19	107.3	79.6
Total equity		272.3	242.8
Liabilities			
Other borrowed funds	20	105.0	105.0
Insurance contract liabilities	21	850.6	861.8
Deferred tax liabilities	25	5.2	3.9
Current tax liabilities	25	6.8	–
Insurance and other payables	23	27.4	50.6
Other reinsurance liabilities	24	8.0	5.5
Cash and cash equivalents	17	5.6	7.1
Total liabilities		1,008.6	1,033.9
Total equity and liabilities		1,280.9	1,276.7

Approved by the Board of directors on 16 March 2010 and signed on its behalf by:

Steve Watts, chair

Neville Richardson, chief executive

Moirra Lees, secretary

Statement of cashflows

For the period ended 31 December 2009

All amounts are stated in £m unless otherwise indicated

	2009	2008
Cash flows from operating activities		
Profit/(loss) before income tax	1.5	(26.8)
Adjustment for:		
Interest payable	3.5	7.3
Amortisation of investments	(0.2)	4.3
(Increase)/decrease in available-for-sale assets	(306.7)	398.0
Decrease/(increase) in financial investments at fair value through profit and loss	335.8	(242.2)
Decrease/(increase) in loans at amortised cost	0.6	(0.6)
Increase in deferred acquisition costs	(7.9)	(0.1)
Increase in reinsurance assets	(9.3)	(7.3)
(Increase)/decrease in insurance receivables and other assets	(0.5)	20.9
Decrease in insurance contract liabilities	(11.2)	(98.0)
Decrease in other provisions	–	(1.0)
(Decrease)/increase in insurance and other liabilities	(23.2)	9.3
Increase in other reinsurance liabilities	2.5	1.0
Income tax recovered/(paid)	20.1	(10.5)
Net cash flows from operating activities	5.0	54.3
Net cash flows from investing activities	–	–
Cash flows from financing activities		
Dividend paid	–	(41.0)
Interest paid	(3.5)	(7.3)
Net cash flows from financing activities	(3.5)	(48.3)
Net increase in cash and cash equivalents	1.5	6.0
Cash and cash equivalents at the beginning of the financial year	(7.1)	(13.1)
Cash and cash equivalents at the end of the financial year	(5.6)	(7.1)

Cash flows from operating activities

CISGIL classifies the cash flows for the acquisition and disposal of financial assets as operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance contracts, net of the cash flows for payments of benefits and claims incurred for insurance contracts, which are respectively treated under operating activities. Additionally, operating cash flows include interest income of £46.5m (2008: £60.5m).

Bank overdrafts are included within cash and cash equivalents for the purpose of the statement of cashflows.

Statement of changes in equity

For the period ended 31 December 2009

All amounts are stated in £m unless otherwise indicated

	Share Capital	Available-for- sale reserve	Capital reserve	Retained Earnings	Total
Balance at 12 January 2008	183.0	(8.7)	126.0	(0.6)	299.7
Loss for the year	–	–	–	(19.2)	(19.2)
Gains less losses on available-for-sale assets	–	(17.2)	–	–	(17.2)
Losses transferred to profit or loss on impairment	–	11.1	–	–	11.1
Cumulative gains transferred to the income statement	–	(5.6)	–	–	(5.6)
Tax on items taken directly to other comprehensive income	–	3.3	–	–	3.3
Net income recognised directly in other comprehensive income	–	(8.4)	–	(19.2)	(27.6)
Dividend paid	–	–	(41.0)	–	(41.0)
Tax on dividend	–	–	11.7	–	11.7
Balance at 10 January 2009	183.0	(17.1)	96.7	(19.8)	242.8
Profit for the year	–	–	–	1.8	1.8
Gains less losses on available-for-sale assets	–	45.2	–	–	45.2
Gains less losses on previously impaired assets	–	(2.6)	–	–	(2.6)
Cumulative gains transferred to the income statement	–	(4.1)	–	–	(4.1)
Tax on items taken directly to other comprehensive income	–	(10.8)	–	–	(10.8)
Net income recognised directly in other comprehensive income	–	27.7	–	1.8	29.5
Dividend paid	–	–	–	–	–
Tax on dividend	–	–	–	–	–
Balance at 31 December 2009	183.0	10.6	96.7	(18.0)	272.3

Capital reserves

Capital reserves relate to a non-refundable capital contribution received from the parent, CFS, and are distributable.

Basis of preparation and significant accounting policies

For the period ended 31 December 2009

CISGIL is a co-operative society registered in England under the Industrial and Provident Societies Acts and not a company registered under the Companies Act. The financial statements were authorised for issue by the directors on 16 March 2010. The insurance specific accounting policies are set out on pages 20 and 21.

Statement of compliance

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which modified the Industrial and Provident Societies Acts 1965 to 2003. The Regulations require CISGIL to prepare its financial statements substantially as though it were a company registered under the Companies Act 2006 (the Act), and they apply, with certain exemptions, the provisions of Parts XV and XVI of the Act.

Basis of preparation

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) adopted by the EU (Adopted IFRS). The financial statements also follow the provisions of the Revised Statement of Recommended Practice on Accounting for Insurance Business (SORP) issued by the Association of British Insurers in December 2005 (as amended in December 2006) insofar as these are compatible with the requirements of IFRS.

Going concern

CISGIL's business activities together with its financial position, capital resources and the factors likely to affect its future development and performance are set out in the business and financial review. In addition the risk management section of the financial statements includes CISGIL's objectives, policies and processes for managing its liquidity risk, details of financial instruments and hedging activities, and its exposure to credit risk and liquidity risk. The capital management section provides information on CISGIL's capital policies and capital resources.

In common with many financial institutions, CISGIL is required to maintain a sufficient buffer over regulatory capital requirements in order to continue to be authorised to carry on its business. CISGIL's forecasts and objectives, taking into account a number of potential changes in trading performance, insurance and investment risk, show that CISGIL should be able to operate at an adequate level of regulatory capital for the foreseeable future. CISGIL has also considered a number of stress tests on capital and these provide assurance that CISGIL is sufficiently capitalised.

Consequently, after making enquiries, the directors are satisfied that CISGIL has sufficient resources to continue in business for the foreseeable future and have therefore continued to adopt the going concern basis in preparing these financial statements. The financial information has been prepared on the basis of IFRS in issue that are endorsed by the EU and effective at 31 December 2009.

The financial statements are prepared on the historical cost basis except that the following assets are stated at their fair value, being investments valued at fair value through profit or loss and investments designated as available-for-sale. In preparing these consolidated financial statements, CISGIL has adopted the following pronouncements during the year that are new or revised:

- IFRS 8 (Operating Segments), which requires that information on operating segments is reported based on how it is reported and evaluated internally (refer to note 1);
- IAS 1 (Presentation of Financial Statements (revised)) which revises the format of the financial statements; and
- amendments to IFRS 7 (Financial Instruments, Improving Disclosures about Financial Instruments) which requires CISGIL to make additional disclosures as follows:
 - fair value disclosures for each class of financial instrument by valuation method (page 33).
 - reconciliation of movements in fair value of instruments with significant unobservable inputs (not applicable).
 - liquidity risk disclosures on a behavioural basis for both derivative and non-derivative financial instruments (page 28).

Standards and interpretations issued and effective

The following standards and interpretations which have been issued are not considered relevant to CISGIL's operations:

- revised IFRS 1 (First time adoption of International Reporting Standards (2009));
- amendment to IFRS 2 (Share-based Payment – Vesting conditions and Cancellations);
- revised IAS 23 (Borrowing Costs);
- IAS 1 (Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation);
- IFRIC 12 (Customer Concession Arrangements);
- IFRIC 13 (Customer Loyalty Programmes); and
- IFRIC 14 and IAS 9 (the Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction).

Standards and interpretations issued but not yet effective

CISGIL has not adopted the following standards and interpretations:

- In April 2009, the IASB issued Improvements to IFRSs 2009, which comprises 15 amendments to 12 standards. Effective dates, early application and transitional requirements are addressed on a standard-by-standard basis. The majority of the amendments will be effective from 1 January 2010. The amendments are unlikely to have a material impact on CISGIL's financial statements.

Standards and interpretations issued but not yet effective (continued)

- Revised IAS 39 (Financial Instruments: Recognition and measurement – Eligible Hedged Items (2008))

The standard was amended to clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. Revised IAS 39 is effective prospectively for annual accounting periods beginning on or after 1 July 2009.

- IFRIC 9 (Embedded derivatives (2008))

The amendments clarify the accounting for embedded derivatives in the case of a reclassification of a financial asset out of the 'fair value through profit or loss' category as permitted by the October 2008 amendments to IAS 39 Financial Instruments. IFRIC 9 is effective prospectively for annual accounting periods beginning on or after 1 July 2009.

The following standards and interpretations which have been issued but not yet effective are not considered relevant to CISGIL's operations:

- revised IFRS 1 (First time adoption of International Reporting Standards (2009));
- amendment to IFRS 2 (Share-based Payment – Group cash-settled share-based payment transactions);
- revised IFRS 3 (Business Combinations (2008));
- IAS 27 (Consolidated and Separate Financial Statements);
- IAS 28 (Investments in Associates);
- IAS 31 (Interests in joint ventures);
- amendments to IAS 32 (Classification of Rights Issues);
- IFRIC 15 (Agreements for the Construction of Real Estate);
- IFRIC 16 (Hedges of a Net Investment in a Foreign Operation);
- IFRIC 17 (Distributions of non-cash Assets to Owners); and
- IFRIC 18 (Transfer of Assets from customers).

CISGIL is not expecting the above standards and amendments to existing standards to have a material impact on the information reported in the financial statements.

Change in accounting policy

In October 2008, the IASB issued Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures). The amendment to IAS 39 permits an entity to transfer from the available-for-sale category to the loans and receivables category, a non-derivative financial asset that would otherwise have met the definition of loans and receivables if the entity has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

The amendment to IFRS 7 introduces additional disclosures if any entity has reclassified financial assets in accordance with the above amendment to IAS 39. The amendments were effective retrospectively from 1 July 2008.

In 2008, CISGIL reclassified certain non-derivative financial assets in accordance with the amendment out of financial assets designated as available-for-sale into loans and receivables at amortised cost. The details of the impacts of the reclassification are disclosed in note 14. As at 31 December 2009, CISGIL had disposed of all such loan and receivable assets.

Change in accounting reference date

Following the 'merger from strength' between Britannia Building Society and The Co-operative Financial Services on the 1 August 2009 and in line with the ultimate parent company, the Co-operative Group Limited, CISGIL has changed its accounting reference date to 31 December.

The 2009 year reflects 355 days which has been stated as 51 weeks. 2008 reflects a 52 week period (365 days).

Accounting policies**(a) Foreign currencies**

The functional and presentational currency for CISGIL is sterling. Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement, except for differences arising on translation of available-for-sale debt securities which are recognised in other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair values are translated to sterling at the exchange rates ruling at the dates the values were determined.

Basis of preparation and significant accounting policies

For the period ended 31 December 2009

(b) Financial instruments

i) Financial investments at fair value through profit or loss

Investments, other than those in debt securities, are designated as financial assets at fair value through profit or loss. Initial measurement is at fair value being purchase price upon the date on which CISGIL commits to purchase and are subsequently carried at fair value. Directly attributable transaction costs are expensed immediately on recognition.

Subsequent valuation is at fair value with changes in fair value being recognised in gains less losses within the income statement in the period in which they arise. On disposal, gains or losses (being proceeds less carrying amount) are recognised in gains less losses within the income statement.

Stock lending and sale and repurchase arrangements

CISGIL operates approved stock lending schemes whereby the securities held are loaned to other institutions in accordance with the terms of agreements with those institutions. Under these arrangements, ownership of the securities passes to the borrower but CISGIL has the right to demand the return of the loaned securities at any time. It also retains the right to receive the income to which it would have been entitled had the securities not been loaned. Accordingly, the securities continue to be recognised as investments in the balance sheet.

CISGIL also participates in sale and repurchase (repo) arrangements in connection with its portfolio of government guaranteed securities (gilts) and reverse sale and repurchase (reverse repo) arrangements. Under repo arrangements, CISGIL sells gilts but is contractually obliged to repurchase them at a fixed price on a fixed future date. Securities which are the subject of repo arrangements at the balance sheet date are included in investments at their bid value and the associated liability is recognised, being the capital amount owing under the repo arrangement.

CISGIL requires all stock lending and reverse repo transactions to be fully collateralised in an agreed form for their duration and equivalent collateral is returned at the completion of the loan period.

Authorised collateral for stock lending arrangements comprises Delivery By Value (DBV) or certificates of deposit. For repo arrangements, collateral is required in the form of cash.

ii) Financial assets designated as available-for-sale

CISGIL classifies the majority of holdings in debt securities as available-for-sale. Initial measurement is at fair value, being purchase price upon the date on which CISGIL commits to purchase plus directly attributable transaction costs.

Subsequent valuation is at fair value with differences between fair value and carrying value recognised in other comprehensive income as they arise. Where there is evidence of impairment, the extent of any impairment loss is immediately recognised in the income statement and a corresponding reduction in the value of the asset is recognised through the use of an allowance account.

On disposal, gains or losses previously recognised in other comprehensive income are transferred to the income statement.

iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and CISGIL does not intend to sell immediately or in the near term. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently these are measured at amortised cost using the effective interest method. The amortised cost is the initial amount at recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount less impairment provisions for incurred losses.

iv) Financial liabilities

Financial liabilities primarily represent borrowed funds. Initial measurement is at fair value being consideration received plus any directly attributable transaction costs.

Subsequently financial liabilities are measured at amortised cost using the effective interest method.

v) Recognition of financial assets and financial liabilities

Financial assets are recognised by CISGIL on the trade date which is the date it commits to purchase the instruments. Loans and receivables are recognised when the funds are advanced.

All other financial instruments are recognised on the date that they are originated.

vi) Derecognition of financial assets and financial liabilities

A financial asset is derecognised when the right to receive cash flows from the assets has expired or is transferred through the sale of the asset or where a transfer of substantially all the risks and rewards and/or control of the financial asset has occurred.

vi) Derecognition of financial assets and financial liabilities (continued)

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing liability is replaced by the same counterparty on substantially different terms or the terms of an existing liability are substantially modified, the original liability is derecognised and a new liability is recognised, with any difference in carrying amounts recognised in the income statement.

vii) Impairment of financial assets

At the balance sheet date, CISGIL assesses its financial assets not carried at fair value through profit or loss for objective evidence that an impairment loss has been incurred.

Objective evidence that financial assets are impaired can include default by a borrower or issuer, indications that a borrower or issuer will enter bankruptcy or the disappearance of an active market for that financial asset because of financial difficulties.

The amount of impairment loss on assets carried at amortised cost is recognised immediately through the income statement and a corresponding reduction in the carrying value of the financial asset is recognised through the use of an allowance account.

The amount of the loss is the difference between:

- the asset's carrying amount; and
- the present value of estimated future cash flows (discounted at the asset's original or variable effective interest rate for amortised cost assets or at the current market rate for available-for-sale assets).

The carrying amount of the impaired financial asset is measured by calculating the present value of future cash flows at the financial instruments' effective interest rate. Any adjustment in value is recognised in the income statement within investment income and represents the unwind of the discount.

Impairment losses on available-for-sale assets are recognised by transferring the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value out of other comprehensive income to profit or loss.

When a subsequent event causes the amount of impaired loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss.

(c) Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits of less than 90 days. Bank overdrafts that are repayable on demand and form an integral part of CISGIL's cash management are included as a component of cash and cash equivalents for the purpose of the cashflow statement.

(e) Impairment of non-financial assets

The carrying values of CISGIL's assets, excluding deferred tax assets, are reviewed at the balance sheet date to determine whether there is any indication of impairment. If impairment is indicated, the asset's recoverable amount (being the greater of fair value less cost to sell and value in use assessed by reference to discounted future cash flows) is estimated.

An impairment loss is recognised in the income statement to the extent that the carrying value of an asset exceeds its recoverable amount. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent of the asset's carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(f) Income tax

Tax on the profit or loss for the year comprises current and deferred tax which is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income (in which case it is recognised in other comprehensive income).

Deferred tax is provided for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profits are not provided for.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Basis of preparation and significant accounting policies

For the period ended 31 December 2009

(g) Employee benefits – pension obligations

Defined contribution basis

With effect from 6 April 2006, CISGIL, along with other businesses within the Co-operative Group, participates in The Co-operative Group Pension Average Career Earnings Scheme (the PACE scheme). This scheme is a defined benefit scheme, the assets of which are held in a separate fund administered by trustees. As a group-wide pension scheme, the PACE scheme exposes the participating businesses to actuarial risks associated with the current and former employees of other group companies, with the result that there is no consistent and reliable basis for allocating liabilities, assets and costs to individual companies participating in the scheme. Therefore pension costs in respect of the scheme are accounted for on a defined contribution basis and recognised as an expense in the income statement.

(h) Provisions

A provision is recognised in the balance sheet if CISGIL has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Revenue recognition

Revenue principally comprises:

Premium income from insurance contracts

CISGIL's accounting policy in respect of revenue arising from insurance contracts is set out within the insurance specific accounting policies, defined in (k) below.

Fee and commission income

Fees and commission received relate primarily to commission on outward reinsurance contracts and are earned over the lifetime of the related policy.

Investment income

Interest income on financial assets designated as available-for-sale and loans and receivables are recognised within investment income on an effective interest rate (EIR) basis, inclusive of directly attributable incremental transaction costs and fees, and discounts and premiums where appropriate.

The EIR basis spreads the interest income over the expected life of the instrument. The EIR is the rate that, at inception of the instrument, exactly discounts expected future cash payments and receipts through the expected life of the instrument back to the initial carrying amount. When calculating EIR, CISGIL estimates cash flows considering all contractual terms of the instrument (for example prepayment options) but does not consider future credit losses.

Interest income on assets designated as fair value through profit and loss is recognised within investment income in the income statement as it accrues on an effective interest basis.

(j) Borrowed funds

Borrowings are recognised initially at issue proceeds and are subsequently stated at amortised cost; any difference between proceeds and redemption value are recognised in the income statement over the period of the borrowing using the effective interest method.

(k) Insurance accounting policies

Classification of contracts

Contracts under which CISGIL accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

A contract that qualifies as insurance remains an insurance contract until all the risks and obligations are extinguished or expire.

General insurance business

All contracts of general insurance business written by CISGIL are classified as insurance contracts. General insurance business is accounted for on an annual basis.

i) Premiums

Gross premiums written comprise premiums receivable on those contracts which incepted during the financial year, irrespective of whether they relate in whole or in part to a later accounting period, together with any necessary adjustments to amounts reported in prior periods.

Gross premiums written:

- are stated gross of commission and exclude any taxes or levies based on premiums; and
- include an estimate of the premiums receivable on those contracts which incepted prior to the year-end but which have not been notified by the balance sheet date (pipeline premium). When calculating pipeline premiums it is assumed, where appropriate, that options to renew contracts automatically will be exercised.

i) Premiums (continued)

Written premium is earned evenly over the period of the contract (usually 12 months). The treatment of outward reinsurance premiums is analogous to gross premiums written.

ii) Unearned premium provision

For general insurance business, the proportion of written premiums relating to periods of risk beyond the year-end is carried forward to future accounting periods. The relevant proportion is calculated, for the overwhelming majority of contracts, using the daily prorata basis with the remainder being determined according to the risk profile of the business.

Outward reinsurance premiums are treated as earned in accordance with the profile of the reinsured contracts.

iii) Claims incurred

Insurance claims incurred comprises claims paid during the year together with related handling costs and the movement in the gross liability for claims in the period net of related recoveries including salvage and subrogation.

iv) Claims outstanding

Claims outstanding comprise provisions representing the estimated ultimate cost of settling:

- estimates on claims reported by the balance sheet date (claims reported); and
- expected additional cost in excess of 'claims reported' for all claims occurring by the balance sheet date (claims incurred but not reported).

Claims provisions include attributable claims handling expenses and are set at a level such that no adverse run-off deviations are envisaged. Adverse run-off deviations, which are material in the context of the business as a whole, would be separately disclosed.

Anticipated reinsurance recoveries and estimates of salvage and subrogation recoveries are disclosed separately within assets under the headings of 'reinsurance assets' and 'insurance receivables and other assets' respectively.

v) Unexpired risk provision

Additional provision is made for unexpired risks where the claims and expenses likely to arise after the end of the financial year in respect of contracts concluded before that date are expected to exceed the unearned premiums carried forward for those contracts. Provision for unexpired risks is calculated separately for categories of business managed together, offsetting surpluses and deficits within each category and is determined after taking account of future investment return arising on investments supporting the unearned premium provision and unexpired risk provision. No post balance sheet events are taken into account. Such provisions ensure that the carrying amount of unearned premiums provision less related deferred acquisition costs is sufficient to cover the current estimated future cash flows including claims handling expenses and therefore meets the minimum requirements of the liability adequacy test as set out in IFRS 4 Insurance Contracts.

vi) Acquisition costs

Costs directly associated with the acquisition of new business, including commission, are capitalised and amortised in accordance with the rate at which the gross premiums written associated with the underlying contract are earned.

vii) Reinsurance

Contracts with reinsurers that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same period as the related claim.

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. If objective evidence of impairment exists, reinsurance assets are reduced to the level at which they are considered to be recoverable and an impairment loss is recognised in the income statement.

(l) Significant items

Items which are material by both size and nature (i.e. outside of the normal operating activities of CISGIL) are treated as significant items and disclosed separately on the face of the income statement.

The separate reporting of significant items helps provide an indication of CISGIL's underlying business performance. Events which may give rise to the classification of items as significant include individually significant restructuring costs.

(m) Profit based payments to members of the Co-operative Group

Members of the Co-operative Group receive a dividend based on their transactions with the Group and its subsidiaries including CISGIL.

The profit based payments to members of the Co-operative Group represents a recharge of the proportion of the dividend payable to the ultimate parent company, Co-operative Group Limited, where the underlying transaction is a CISGIL product. The recharge is recognised when the profit based payments are approved by the Co-operative Group Limited.

Risk management

For the period ended 31 December 2009

All amounts are stated in £m unless otherwise indicated

CISGIL issues contracts that transfer insurance risk and is exposed to financial risk through its holdings of financial assets and liabilities. This section summarises these risks and the way the Society manages them.

Our approach to risk management

CISGIL operates in regulated markets and is subject to significant government regulation.

The CFS Group of companies including Co-operative Financial Services Limited, Co-operative Insurance Society Limited (life and savings business), CIS General Insurance Limited, and The Co-operative Bank plc have a common Board composition.

CFS has developed and implemented a common governance and organisation structure, with the same committee structure supporting each Board within the CFS Group.

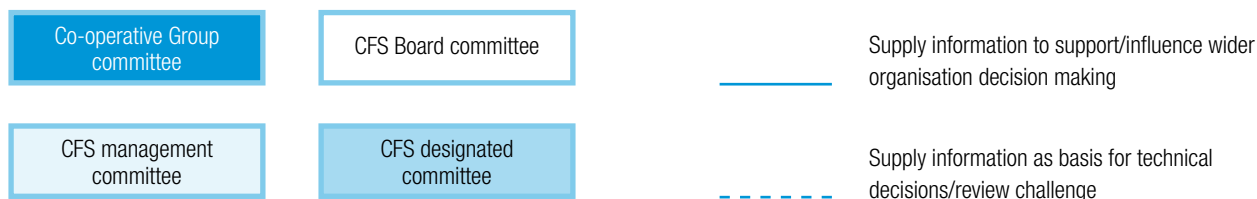
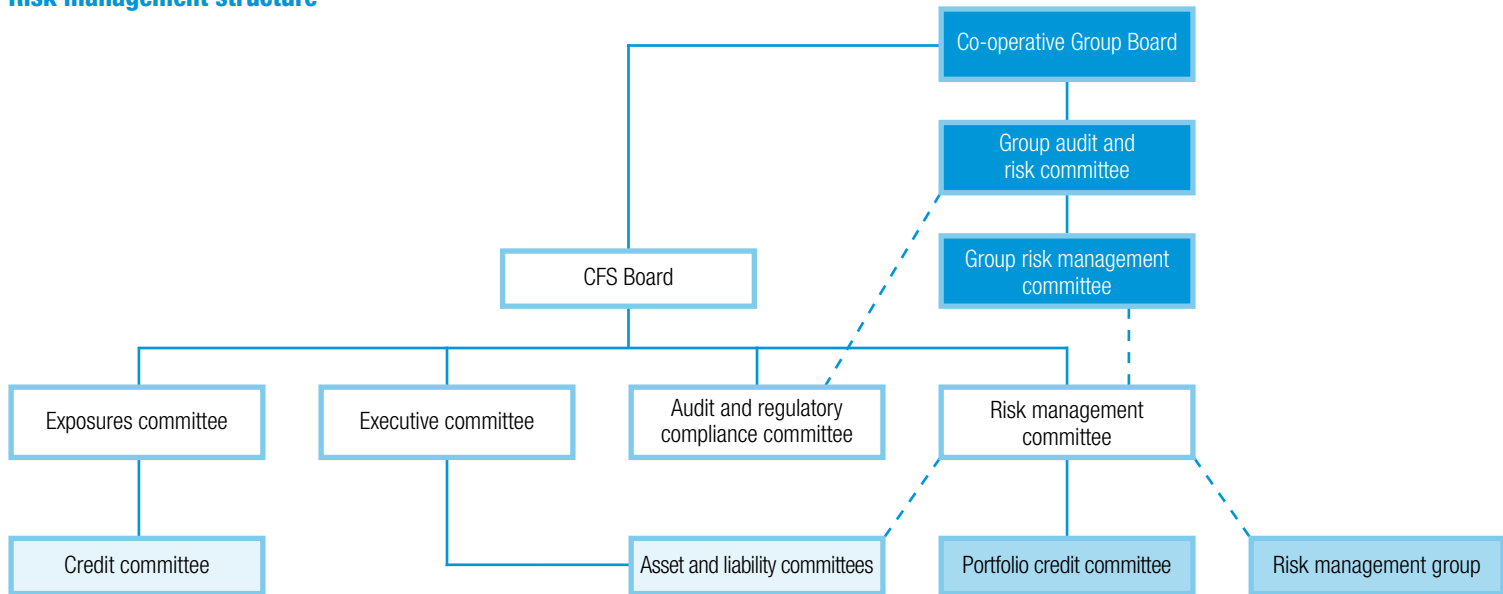
The CFS Board has ultimate responsibility for the management of all risks across CFS.

The Board is responsible for approving the CFS strategy, its principal markets and the level of acceptable risks articulated through its statement of risk appetite. It is also responsible for overall corporate governance which includes ensuring that there is an adequate system of risk management and that the level of capital held is consistent with the risk profile of the business.

The Board has established board committees and senior management committees to administer, oversee and challenge the risk management process, identifying the key risks facing the business and assessing the effectiveness of planned management actions.

Specific Board authority has been delegated to board committees and the chief executive who may, in turn, delegate elements of his discretions to appropriate executive directors and their senior line managers.

Risk management structure



Risk management structure (continued)

The CFS Board delegates authority to the CFS risk management committee (RMC) (senior board committee) for monitoring compliance with the Board-approved risk appetite statements. This includes:

- setting limits for individual types of risk; and
- approving (at least annually) and monitoring compliance with risk policies and delegated levels of authority.

CFS risk management committee (RMC): this committee is responsible for review and challenge of the adequacy of capital for all risks (including operational risk); and for technical risk management activities and portfolio exposures across CFS including:

- operation of mandates and limits and any breaches thereof;
- technical risk management policy approval;
- risk management information reporting and integrity of relevant data;
- risks adequately identified and measured;
- risk and portfolio exposure management strategy;
- adequacy of the risk mitigation process;
- review and discussion of technical risk issues identified as a result of internal audit work; and
- review and challenge the impact assessment of the strategic plan on the risk and capital profile of CFS.

CFS audit and regulatory compliance committee (ARCC): this committee provides independent oversight in relation to financial reporting; internal control; regulatory compliance; external and internal audit. It is responsible for approval of policies and review of adequacy of risk management activities in relation to operational risk.

CFS exposures committee: this committee ensures that non-executive directors are actively involved in major credit decisions (including sanctioning large counterparty transactions), monitor large exposures and problem loans and review the adequacy of individual credit provisions.

CFS executive committee: this committee manages the business in line with the Board Risk Appetite Statement. It also maintains oversight of risk management processes and management information.

CFS asset and liability committees (ALCO): these committees are management committees of the Board which are chaired by the chief financial officer. They are primarily responsible for overseeing the management of interest rate, market, liquidity and funding risks and to advise on the composition and sourcing of adequate capital.

CFS risk management group (RMG): this committee is a designated committee reporting to RMC and chaired by the chief financial officer. Its purpose is to provide a mechanism to ensure that CFS-wide technical risk and capital management requirements, developments and processes are approved, (with escalation to RMC where required) and embedded within and across CFS. The committee also monitors all significant and emerging risks, and oversees the development and implementation of stress testing and risk appetite across CFS.

CFS portfolio credit committee (PCC): this committee is a designated committee reporting to RMC and chaired by the business leader banking risk. It is responsible for defining Bank group credit risk appetite; providing oversight and timely action in relation to credit risk management; agreeing appropriate and timely action to ensure continued adherence with regulatory requirements; and monitoring, challenge and approval of material changes to and performance of the Basel Internal Rating Based Systems.

CFS credit committee: this committee is chaired by the business leader banking risk. The chair has delegated authority for sanctioning individual counterparty credit transactions, and management action as appropriate where breaches of facility may have/potentially may occur.

CFS operational risk committee: this committee interfaces with both the executive committee and ARCC and is chaired by the business leader regulatory compliance and operational risk. It monitors significant operational risks and controls as well as the management actions taken to mitigate them to an acceptable level and/or transfer them. This includes business continuity arrangements and insurance cover to protect the CFS business. Each division within CFS is represented on the committee. The committee is not shown on the previous diagram as it is an information sharing committee, designed to increase understanding and transparency of significant operational risks and reporting is via the operational risk department.

There is also a framework of sector specific management committees reporting up to the CFS management and Board committees, responsible for risk and capital management, enhancing and implementing changes in business strategy, optimising performance, adherence to and setting of policy, and development of management information and training.

Risk management

For the period ended 31 December 2009

All amounts are stated in £m unless otherwise indicated

Insurance risk

Insurance risk refers to fluctuations in the timing, frequency and severity of insured events relative to the expectations of the firm at the time of underwriting. The principal risk that CISGIL faces under its insurance contracts is that the actual claims exceed the carrying amount of the insurance liabilities.

In CISGIL, insurance risk is made up of risks that arise in respect of claims that have already occurred and for which reserves are already held (reserving risk) and of claims that are yet to occur (underwriting risk).

Principal risks covered

The major classes of general insurance business written are motor and property, together with some liability, pecuniary loss and personal accident risks. Almost all risks under general insurance policies cover a 12 month duration and all risks directly underwritten are confined to the UK market.

Motor cover provided is principally in respect of private vehicles or to small businesses, with limited underwriting of fleet business. Principal risks under motor policies are bodily injury to third parties, accidental damage to property including policyholders' and third parties' vehicles and theft of or from policyholders' vehicles.

Property cover is predominately household with some commercial property business. Principal risks under property policies are damage to domestic and commercial properties from storm and flood, fire, escape of water and subsidence and theft of or accident damage to contents.

CISGIL has entered into an indemnification agreement with Co-operative Insurance Society Limited (CIS), a fellow subsidiary within the CFS Group, to assume financial responsibility for the run-off of general insurance business formerly written by CIS. In return CISGIL has received a premium, settled by transfer of assets, equivalent to the net technical liabilities of this business included in CIS's financial statements at 2005 year-end. This exposes CISGIL to the risk of these assets being insufficient to cover the claims arising from this business, although this risk is diminishing over time.

Frequency and severity of claims

The frequency and severity of property claims can be affected by several factors, the most significant being weather events. In addition, there is a possibility of a very large individual commercial property claim arising from fire and/or consequential loss. The most significant factors affecting the frequency and severity of motor claims are judicial, legislative and inflationary changes and the frequency and severity of large bodily injury claims. Sensitivity analysis is disclosed in note 21.

Risk management objectives and strategy

CISGIL's objective in managing general insurance risk is to ensure that insurance risks are understood and accepted in accordance with its documented underwriting policy and that policy pricing appropriately reflects the underlying risk. General insurance risk is managed through the underwriting strategy, reinsurance arrangements, proactive claims handling and the claims provisioning process.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry/demographic profile and geography and only those risks which conform with underwriting criteria are accepted. Exposure mix and the frequency and average costs of claims are monitored throughout the year and where significant deviations from expectation are identified remedial action is taken. A programme of reinsurance is in place which sets retention levels in accordance with the risk appetite of the business.

The overriding objective in claims handling is to ensure all claims are properly scrutinised and paid where they fall within the terms and conditions of the policy. The proper scrutiny of claims is facilitated by the use of various technical aids such as a pricing database, weather validation and fraud databases and the use of claims specialists.

The basis for assessing claims provisions is set out in note 21.

Concentration of risk

The bias of the portfolio towards personal contracts reduces the risk of large single losses and there is no significant concentration of risk in any geographical area of the UK. Excess of loss reinsurance cover is used to mitigate losses from individual large claims, particularly large bodily injury and commercial losses.

Statistical modelling with specialised software is produced to assess CISGIL's exposure to natural hazards such as windstorm and flood events, including a large east coast flood, which would significantly affect the property portfolio. Weather event catastrophe reinsurance cover is the most important component of the reinsurance programme and is set to restrict losses from a single event.

Sources of uncertainty in the estimation of future claim payments and premium receipts

The nature of insurance contracts is that the obligations of the insurer are uncertain as to the timing or quantum of liabilities arising from contracts. CISGIL takes all reasonable steps to ensure that it has information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Insurance risk (continued)

Uncertainty over the timing of claims relates to liabilities which have occurred but are not yet reported and the interval between claim notification and settlement. Recognised statistical methods are used to assess the payment of claims, both in respect of claims already notified and those yet to be notified. Bodily injury claims and associated legal costs, which are a significant element of outstanding claims on the motor and liability accounts, have a longer period to settlement, potentially several years. There is a higher degree of uncertainty associated with these long tail claims than property damage claims which are settled more quickly. By their nature, the statistical methods used to assess the timing of future payments rely, to some extent, on past patterns being repeated in future.

In terms of monetary values placed on claims liabilities, uncertainty arises from a number of sources. Inflation assumptions, to which long tail claims are sensitive, are set with regard to current conditions and expectations for economic influences relevant to the claim type but future experience may diverge. Bodily injury claims in particular are sensitive to changes in the legislative and regulatory environments where court decisions, guidance from the Lord Chancellor or statutory changes can affect unsettled liabilities.

In addition to cost inflation and other external factors referred to above, the amount and timing of claim payments will be affected by changes in the organisation's claims handling processes. The allowance in provisions represents CISGIL's current view of the degree of this acceleration. Estimations are also made in respect of pipeline premiums, non-recoverable premium debts and doubtful reinsurance recoveries. In calculating the pipeline premiums, projections are based on past patterns of premium processing. Changes in processing cycles and in attrition rates could alter these past trends.

Financial risk

CISGIL is exposed to financial risk through its financial assets, financial liabilities (including borrowings), reinsurance assets and insurance liabilities. In particular a key financial risk is that the proceeds from financial assets are insufficient to fund the obligations arising under general insurance contracts. CISGIL manages financial risk according to the sub-categories of market risk, credit risk and liquidity risk.

Financial risk management objective and strategy

The principal objective of CISGIL's financial risk management strategy is to optimise the return on investments commensurate with an acceptable level of financial and insurance risk. Financial risk is managed within an asset and liability management framework (ALM) to ensure this objective is achieved. An over-riding constraint on the fund's investment strategy is to ensure that at all times the fund has sufficient assets to meet its solvency and capital requirements.

The risk management committee specifically monitors ALM exposures and controls the effectiveness of the market and credit policies. Exposures to market and credit risk are managed through diversifying investments across asset classes, issuers and markets.

The principal ALM technique used is to invest in assets which are predominantly fixed interest securities with a similar duration profile to the liabilities under the general insurance contracts.

As part of its ALM framework, CISGIL sets a strategic asset allocation range with reference to a suitable benchmark for each asset class taking account of the short term insurance and investment liabilities and the financial risks. Controls and limits are set for each risk and sub-risk type and managed within the risk management procedures accordingly. CISGIL considers the capital adequacy and solvency of the fund when establishing and controlling the assets and risk limits.

Market risk

Market risk includes the risks that arise from fluctuations in values of, or income from assets, or in interest rates to the extent that there is a mismatch between assets and liabilities. CISGIL normally matches the insurance liabilities arising under its general insurance contracts with a portfolio of fixed interest debt securities of a similar average duration to the liabilities arising under those contracts. To enhance certainty over the investment return generated from these assets, management practice is generally to maintain holdings to maturity. Short term insurance liabilities are not directly sensitive to the level of money market rates, as they are contractually non-interest-bearing. However, interest rate risk arises because of the time value of money and the potential duration to settlement of claims. The value of assets held is subject to volatility from changes in short term money market interest rates and proceeds from maturing investments are subject to risk over the future return on reinvestment.

CISGIL matches cash flows of assets and liabilities in this portfolio by estimating their mean duration. The mean duration of liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from insurance contracts in force at the balance sheet date (both incurred claims and future claims arising from the unexpired risks at the balance sheet date). Mean durations are:

	2009	2008
Net insurance liabilities	2.34 years	2.30 years
Financial assets	3.34 years	1.42 years

The mean duration of assets remains within the boundaries of the investment mandate which permits some deviation from the matched position. The mean duration of assets is regularly monitored against the investment mandate.

CISGIL writes contracts of insurance in the United Kingdom and insurance liabilities and borrowings are denominated in sterling. Funds are invested solely in assets denominated in sterling and consequently there is no significant exposure to currency risk.

Risk management

For the period ended 31 December 2009

All amounts are stated in £m unless otherwise indicated

Financial risk (continued)

Sensitivity analysis

The only significant aspect of market risk to which CISGIL is exposed is interest rate risk. The market value of CISGIL's assets is subject to volatility from changes in short term money market interest rates; furthermore proceeds from maturing investments are subject to risk over the future return on reinvestment. An increase of 100 basis points in interest yields would reduce the carrying value of CISGIL's assets at the end of the financial year by £34.1m (2008: £11.8m). CISGIL invests predominantly in fixed rate securities and has adopted a policy of recognising investment assets on an 'available-for-sale' basis, therefore the impact upon profit during the period would not be material and would instead be recognised directly in other comprehensive income as a reduction of £24.6m net of tax (2008: £8.5m). Conversely the impact of a decrease of 100 basis points in interest yields would be recognised directly in other comprehensive income as an increase of £26.6m net of tax (2008: £8.9m).

CISGIL has issued £105m of subordinated debt at varying margins above three month LIBOR. The effect on profit of a 1% movement in three month LIBOR would be £0.76m per annum net of tax (2008: £0.75m).

The sensitivity analysis above assumes a reasonably possible movement in one variable with all other variables held constant. Furthermore the calculation assumes that a change in base rate would have an immediate and equal impact at all points on the yield curve.

Credit risk

CISGIL's principal credit risk exposures are as follows:

- default of debt securities and reinsurance counterparties, either failing to meet financial obligations when due or entering into restructuring arrangements that may adversely affect the market value of the debt security or reinsurance recoverable; and
- adverse movement in credit spreads impacting on its corporate bond portfolio.

A credit policy and exposure framework has been established to monitor counterparty and credit risk exposures on an ongoing basis through the use of appropriate risk limits. CISGIL structures the levels of counterparty risk and asset concentration risk it accepts by placing limits and controls over the exposure to a single debt instrument and counterparty, or counterparty group, and seeks to actively diversify investment holdings and counterparty exposures across markets and economic segments. Counterparty exposures are subject to review annually and where concern exists over counterparty credit quality, watch lists are maintained and actively managed.

Where reinsurance is used to manage insurance risk, a risk is created that the reinsurer fails to meet its obligations in the event of a claim. Creditworthiness of reinsurers is considered regularly together with reinsurer exposures.

Other risk mitigation techniques employed to manage exposure to counterparty default include transacting only through a diversified range of authorised counterparties of brokers and the requirement for certain transactions (including investment and trading in futures, stock lending and gilt repo transactions) to be fully collateralised on a daily basis.

At the balance sheet date there were no significant concentrations of credit risk. The table below provides an analysis at the balance sheet date of the credit rating of those assets subject to credit risk, and excludes any assets that were classed as impaired at that date.

	AAA	AA	A	BBB and below	Not rated	Total
As at 31 December 2009						
Financial assets at fair value through profit or loss:						
Deposits with approved credit institutions (fixed rate)	–	22.3	–	–	–	22.3
Available-for-sale financial assets						
Listed debt (fixed rate)*	37.4	213.6	516.3	235.2	–	1,002.5
Unlisted debt (fixed rate)	–	–	–	4.9	–	4.9
Loans at amortised cost	–	–	–	–	–	–
Reinsurance assets	6.0	6.7	5.5	–	10.4	28.6
Insurance receivables and other assets	1.1	5.6	18.2	5.2	156.0	186.1
	44.5	248.2	540.0	245.3	166.4	1,244.4

*Includes £16.7m of gilt edged securities

Financial risk (continued)

	AAA	AA	A	BBB and below	Not rated	Total
As at 10 January 2009						
Financial assets at fair value through profit or loss:						
Deposits with approved credit institutions (fixed rate)	–	358.1	–	–	–	358.1
Available-for-sale financial assets						
Listed debt (fixed rate)*	103.0	210.7	243.0	100.4	–	657.1
Unlisted debt (fixed rate)	–	–	–	4.9	–	4.9
Loans at amortised cost	–	–	–	0.6	–	0.6
Reinsurance assets	4.4	5.2	1.7	–	8.0	19.3
Insurance receivables and other assets	2.1	7.5	10.0	2.5	163.5	185.6
	109.5	581.5	254.7	108.4	171.5	1,225.6

*Includes £5.6m of gilt edged securities

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the table, with the exception of reverse repo balances of £19.8m (2008: £348.1m) reported within deposits with approved credit institutions, which are fully secured by gilts received from the counterparty.

CISGIL makes provisions for the possible impairment of financial assets where there is objective evidence that an impairment loss has been incurred.

Liquidity risk

CISGIL is exposed to calls on its available cash resources mainly from claims arising. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities in place to cover claims at unexpected levels of demand.

A liquidity risk policy has been established and risk is managed through the requirement to hold a proportion of financial assets in cash and liquid fixed interest stocks to pay claims for a specified time period in stressed conditions, where liquid assets are considered to be:

Asset type	Value included as liquid assets
Gilts	100%
Cash	100%
Corporate bonds:	
AAA	80%
AA	70%
A	60%
BBB	50%
All other investments	0%

The stressed condition which is assessed is 20% of the one in 100 year windstorm loss before reinsurance recoveries, and this is calculated by GI capital and risk at least every year, based on the Individual Capital Assessment (ICA) models. It is considered that 20% is reasonable for liquidity, as there is always a delay before claims are paid and CISGIL is to some extent in control of the period to payment. Based on the latest catastrophe model the one in 100 year windstorm loss is £91m, giving a liquidity requirement of £18.2m against actual liquid assets of £645m.

CISGIL has access to overnight borrowing facilities with The Co-operative Bank plc, a fellow subsidiary. Overnight borrowings are subject to The Co-operative Bank's regulatory related counterparty exposure limits. These borrowings are on normal commercial terms and represent an unsecured, uncollateralised obligation of CISGIL. CISGIL is active in the gilt repo market to facilitate liquidity risk management and maintains short term borrowing facilities to enable settlement.

The following table indicates the time profile of undiscounted cash flows arising from financial liabilities (based upon contractual maturity) and insurance liabilities (based upon estimated timing of amounts recognised in the balance sheet).

Risk management

For the period ended 31 December 2009

All amounts are stated in £m unless otherwise indicated

Financial risk (continued)

	Carrying value	Gross nominal out flow	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
As at 31 December 2009								
Insurance contract liabilities	850.6	850.6	436.9	114.8	86.7	56.4	35.8	120.0
Financial liabilities at amortised cost:								
Subordinated debt	105.0	113.8	1.8	1.8	31.6	1.2	1.2	76.2
Insurance and other payables	27.4	27.4	27.4	–	–	–	–	–
Other reinsurance liabilities	8.0	8.0	8.0	–	–	–	–	–
Cash and cash equivalents	5.6	5.6	5.6	–	–	–	–	–
	996.6	1,005.4	479.7	116.6	118.3	57.6	37.0	196.2
Other liabilities	12.0							
Total recognised liabilities	1,008.6							

	Carrying value	Gross nominal out flow	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
As at 10 January 2009								
Insurance contract liabilities	861.8	861.8	494.1	147.9	86.4	54.7	31.7	47.0
Financial liabilities at amortised cost:								
Subordinated debt	105.0	126.8	3.7	3.7	3.7	33.2	2.5	80.0
Insurance and other payables	43.0	43.0	43.0	–	–	–	–	–
Other reinsurance liabilities	5.5	5.5	5.5	–	–	–	–	–
Cash and cash equivalents	7.1	7.1	7.1	–	–	–	–	–
	1,022.4	1,044.2	553.4	151.6	90.1	87.9	34.2	127.0
Other liabilities	11.5							
Total recognised liabilities	1,033.9							

Operational risk (unaudited)

Operational risk is defined within CFS as the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. This encompasses the effectiveness of risk management techniques and controls to minimise these losses.

Examples of such include internal and external fraud, loss or theft of confidential customer information, loss of key personnel, system capacity issues or program failure, process failures affecting payment settlement and external events over which CFS has limited control such as terrorist attack, floods and contagious disease.

Operational risks are identified, managed and mitigated through ongoing risk management practices including risk assessments, formal internal control procedures, training, segregation of duties, delegated authorities and business continuity planning. Significant operational risks are regularly reported to executive directors, a management operational risk committee, and the audit and regulatory compliance committee (a formal Board sub-committee). These meet regularly to monitor the suitability of the risk management framework and management of significant risks within CFS. Capital requirements in relation to operational risk are monitored by the risk management committee.

Business continuity is managed from within the operational risk team and sets out to take appropriate steps to minimise the risk of disruption in the event of a sudden, unplanned occurrence that could seriously disrupt customer service, or pose a risk to employees, business operations and/or reputation. This includes developing and exercising crisis and incident management teams to maintain appropriate preparedness in the event of a major operational disruption. In 2009, with the emergence of swine flu (H1N1), postal strikes and continued focus on liquidity planning, specific focus has been placed on maintaining and developing our capability to respond to these threats.

CFS also has a corporate insurance programme to transfer specific risks to insurers as part of its risk management approach.

2009 has seen the merger of CFS with the Britannia Building Society. Work is underway to ensure that CFS's operational risk framework is consistently applied across the merged organisation, in compliance with the Basel II Standardised Approach to operational risk.

Additional risks (unaudited)

In addition to the significant risks covered opposite, the following risks are also reported in the CFS risk management framework:

- group-wide risks, to include pensions, reputational and contagion risk;
- business risk; and
- regulatory risk.

Group-wide risks (unaudited)

Pensions risk: the risk of the firm being unable to meet pension scheme commitments. Risks are identified at the Co-operative Group level, with the impact of any potential changes to contribution assessed under the CISGIL risk management framework.

The entity is exposed to the following pension risk:

- PACE – CFSMS and The Co-operative Bank are participating members of The Co-operative Group Pension (Average Career Earnings) – defined benefit scheme.

The Co-operative Group, alongside the scheme trustees, are responsible for the risk management arrangements for PACE, agreeing suitable contribution rates, investment strategies etc, taking professional advice as appropriate.

CISGIL is therefore exposed to potential future increases in required contributions.

Reputational risk: failure to proactively develop, protect and optimise the value of the brands of the CFS Group of companies through inappropriate strategic decisions, poor business performance, or operational failure. Reputational risks are identified at the CISGIL entity level. As part of the assessment of this risk, we consider the impact of other CFS entities and Co-operative Group entities to CISGIL.

Contagion risk: risks originating from elsewhere in the group impacting upon CISGIL.

Business risk: arises from changes to CISGIL's business, specifically the risk of not being able to carry out CISGIL's business plan and desired strategy, including the ability to provide suitable products and services to customers. In a narrow sense, business risk is the risk CISGIL suffers losses because income falls or is volatile relative to the fixed cost base. However, in a broader sense, it is CISGIL's exposure to a wide range of macro-economic, geopolitical, industry, regulatory and other external risks.

Regulatory risk: regulatory intervention and change is a permanent feature of any financial services business and can have a significant impact on profitability.

Capital management

For the period ended 31 December 2009

All amounts are stated in £m unless otherwise indicated

Objectives when managing capital

For regulatory solvency purposes CISGIL defines capital as share capital and reserves plus subordinated debt and its strategy in respect of capital management is to ensure that the following objectives are met:

- it has sufficient capital to meet all regulatory requirements;
- it has sufficient capital to support all the risks in the business, over the internally agreed time horizon and to the internally agreed level of confidence, thus ensuring that policyholders are protected and also that the Board's risk appetite is met; and
- subject to the above objectives being met, it makes the required post tax return on equity (ROE) over a ten year cycle. This is to allow for weather related events which can add volatility to the results. CISGIL's capital comprises equity and debt, where equity refers to the shareholder capital plus retained reserves.

Although CISGIL is part of a larger organisation, the principle adopted is that it will be managed as if it is a self sufficient company, i.e. that there will not be any guarantee of extra capital from elsewhere in the CFS Group, and that any losses that arise should aim to be absorbed by CISGIL. For internal purposes capital is managed on a regulatory basis. Further information is available within the risk management section.

Required capital

CISGIL is required to hold regulatory capital for its general insurance business in compliance with the rules issued by the Financial Services Authority (FSA).

(a) Internal required capital

In accordance with the Prudential sourcebook insurers (INSPRU), each firm must have internal models to calculate its own capital requirements. The Individual Capital Assessment (ICA) is a risk based economic capital assessment. The ICA is owned by the actuarial risk team and is presented at least annually to the risk management committee, or more frequently if necessary. The FSA review the ICA calculation every two to three years to assess whether they believe the models and controls surrounding the models are adequate and, if they deem it necessary, they apply an 'add-on' to reflect risks that were inadequately captured. The total ICA plus add-on is known as Individual Capital Guidance (ICG).

(b) Regulatory required capital

In accordance with the General Prudential sourcebook (GENPRU) 2.1, CISGIL must hold capital resources equal to or in excess of its capital resources requirement. For a company writing general insurance this is termed the minimum capital requirement (MCR) and is defined as being the higher of a base capital resource requirement and the general insurance capital requirement (a formulaic hurdle where the calculation is based upon premiums, claims or the brought forward amount).

CISGIL must, at all times, hold assets in excess of the higher of the MCR and the ICG in order to meet all regulations. In order to be sure of meeting these commitments, CISGIL has articulated a risk appetite. This defines the confidence level with which the Board want to meet the above requirements, which in turn can be used to calculate the additional capital that is required over and above the minimum.

Submissions to the FSA in the year have shown that CISGIL has complied with all externally imposed solvency requirements throughout the period.

(c) Capital composition

CISGIL's regulatory capital comprises total shareholders' equity, excluding inadmissible assets, subordinated debt and equalisation provisions recognised in equity.

	2009	2008
Capital and reserves per the financial statements	272.3	242.8
Subordinated debt	105.0	105.0
Inadmissible assets	(2.2)	(14.2)
Statutory claims equalisation reserve	(21.2)	(17.2)
Proposed dividend	(55.0)	—
Regulatory capital	298.9	316.4

CISGIL makes critical judgments and estimates that affect the reported amounts of assets and liabilities within the following financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances but which may not necessarily be borne out in practice. The most significant area of estimation and judgment relates to the determination of the ultimate liability arising from claims made under insurance contracts. Details of the methodology, key assumptions and sensitivities are provided in note 21.

Financial asset and liability classification

CISGIL's accounting policies provide scope for assets and liabilities designated at inception into different accounting categories in certain circumstances as outlined on pages 18 and 19 and defined as follows:

- in designating financial assets or liabilities at fair value through profit or loss, CISGIL has determined that it has met one of the criteria for this designation as set out in accounting policy b(i); and
- in classifying assets as loans and receivables at amortised cost, CISGIL has determined it meets the description as set out in accounting policy b(iii).

The table below analyses financial instruments by measurement basis as detailed by IAS 39.

Balance sheet categories 2009	Designated at fair value	Loans and receivables	Available -for-sale	Other amortised cost	Total
Assets					
Financial assets at fair value through profit or loss	22.3	–	–	–	22.3
Available-for-sale assets	–	–	1,007.4	–	1,007.4
Loans at amortised cost	–	–	–	–	–
Other assets	–	144.7	–	–	144.7
Total financial assets	22.3	144.7	1,007.4	–	1,174.4
Non-financial assets					106.5
Total assets					1,280.9
Liabilities					
Other borrowed funds	–	–	–	105.0	105.0
Overdrafts	–	–	–	5.6	5.6
Other liabilities	–	–	–	27.4	27.4
Total financial liabilities	–	–	–	138.0	138.0
Non-financial liabilities					870.6
Total liabilities					1,008.6
Capital and reserves					272.3
Total liabilities and equity					1,280.9

Critical judgments and estimates

All amounts are stated in £m unless otherwise indicated

Financial asset and liability classification (continued)

2008	Designated at fair value	Loans and receivables	Available- for-sale	Other amortised cost	Total
Assets					
Financial assets at fair value through profit or loss	358.1	–	–	–	358.1
Available-for-sale financial assets	–	–	662.0	–	662.0
Loans at amortised cost	–	–	–	0.6	0.6
Other assets	–	133.0	–	–	133.0
Total financial assets	358.1	133.0	662.0	0.6	1,153.7
Non-financial assets					123.0
Total assets					1,276.7
Liabilities					
Other borrowed funds	–	–	–	105.0	105.0
Overdrafts	–	–	–	7.1	7.1
Other liabilities	–	–	–	50.6	50.6
Total financial liabilities	–	–	–	162.7	162.7
Non-financial liabilities					871.2
Total liabilities					1,033.9
Capital and reserves					242.8
Total liabilities and equity					1,276.7

Fair values of financial assets and liabilities

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the financial statements:

(a) Financial investments at fair value through profit or loss

The fair value of financial assets designated at fair value through profit or loss, being short term fixed rate deposits, approximates their carrying amount.

(b) Available-for-sale assets

Fair value of listed debt securities is based on clean bid prices at the balance sheet date without any deduction for transaction costs.

Fair value of unlisted debt securities represents the discounted expected principal and interest cash flows. Interest rate assumptions used in the valuation are based upon gilt yields of appropriate maturity.

Available-for-sale financial assets are regularly reviewed for impairment. Objective evidence of impairment can include default by a borrower or issuer, indications that a borrower or issuer will enter bankruptcy or the disappearance of an active market for that financial asset because of financial difficulties.

These reviews give particular consideration to evidence of any significant financial difficulty of the issuer or measurable decrease in the estimated cash flows from the investments.

(c) Loans at amortised cost

Loans are net of provisions for impairment. The estimated fair value of loans represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market interest rates based on current credit spreads to determine fair value.

Loans at amortised cost are regularly reviewed for impairment. Objective evidence of impairment can include default by a borrower or issuer or indications that a borrower or issuer will enter bankruptcy. These reviews give particular consideration to evidence of any significant financial difficulty of the issuer or measurable decrease in the estimated cash flows from the investments.

Further information on CISGIL's accounting policy for impairment is given on page 19.

(d) Borrowed funds

Fair value measurement is based on a discounted cash flow basis using prevailing market interest rates.

Fair values of financial assets and liabilities (continued)

(e) Receivables and payables

For receivables and payables with a remaining life of less than one year, the nominal amount is deemed to reflect the fair value, where the effect of discounting is immaterial.

The table below shows a comparison of the carrying value and fair values of financial instruments where the value is significantly different. In all other instances fair values are not materially different to carrying values.

Financial Liabilities	2009 Carrying value	2009 Fair value	2008 Carrying value	2008 Fair value
Other borrowed funds	105.0	95.0	105.0	74.8

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Valuation of financial instruments

2009	Level 1	Level 2	Level 3	Total
Assets				
Financial investments at fair value through profit or loss	22.3	–	–	22.3
Available-for-sale assets	1,002.5	4.9	–	1,007.4
Total financial assets at fair value	1,024.8	4.9	–	1,029.7

Valuation of financial instruments

2008	Level 1	Level 2	Level 3	Total
Assets				
Financial investments at fair value through profit or loss	358.1	–	–	358.1
Available-for-sale assets	565.6	96.4	–	662.0
Total financial assets at fair value	923.7	96.4	–	1,020.1

There have been no transfers of financial assets or liabilities between level 1 and level 2 in the period (2008: nil).

The valuation techniques using observable inputs primarily relate to level 2 unlisted debt securities that would otherwise be fair valued using quoted market prices but where there has been short term temporary market inactivity. In obtaining relevant fair values CISGIL has obtained security specific prices from third party market makers based on what the third parties would have traded these particular securities for, at the year-end date.

The following table allows comparison of debt securities (other than those classified as at fair value through profit or loss) on the basis of the current carrying amount, fair value and amortised cost (pre impairment).

Investments in debt securities as:	Carrying amount 2009	Fair value 2009	Amortised cost 2009
Available-for-sale financial assets	1,007.4	1,007.4	993.0
Loans and receivables at amortised cost	–	–	–
Investments in debt securities as:	Carrying amount 2008	Fair value 2008	Amortised cost 2008
Available-for-sale financial assets	662.0	662.0	692.6
Loans and receivables at amortised cost	0.6	0.6	0.6

Notes to the financial statements

All amounts are stated in £m unless otherwise indicated

1. Segmental analysis

Segmental information is presented in respect of CISGIL's business segments in line with CISGIL's management and internal reporting structure, provided to the Chief Operating Decision Maker (CODM).

There is no geographic segmental reporting as all business is conducted in the UK.

Segmental results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Business segments

CISGIL comprises the following segments:

- (a) **Motor** – Private motor car and motor cycle, individual commercial vehicles.
- (b) **Home** – Domestic buildings, contents and personal possessions.
- (c) **Other** – Commercial risks covering property, liability, financial loss and motor fleet. Other minor personal risks and run-off of inwards reinsurance liabilities.

Segment income statement for the year ended 31 December 2009

	Motor	Home	Other	Total
Net earned premiums	231.6	128.3	15.5	375.4
Costs	(73.7)	(44.5)	(6.6)	(124.8)
Claims incurred	(222.4)	(54.1)	(4.1)	(280.6)
Commission	(8.0)	(4.5)	1.5	(11.0)
Investments	51.7	9.7	4.3	65.7
Other	(3.0)	(0.5)	(0.2)	(3.7)
Operating profit/(loss)	(23.8)	34.4	10.4	21.0

Segment income statement for the year ended 10 January 2009

	Motor	Home	Other	Total
Net earned premiums	227.5	132.3	23.0	382.8
Costs	(66.9)	(53.3)	(8.1)	(128.3)
Claims incurred	(164.8)	(84.6)	(15.6)	(265.0)
Commission	(6.0)	(3.3)	0.6	(8.7)
Investments	26.9	5.2	2.5	34.6
Other	(5.4)	(1.0)	(0.6)	(7.0)
Operating profit/(loss)	11.3	(4.7)	1.8	8.4

Significant items are not allocated by business segment.

Reconciliation of segmental reporting to statutory profit or loss:

	2009	2008
Total profit for reportable segments	21.0	8.4
Statutory adjustments	(1.0)	(2.4)
Consolidated operating profit	20.0	6.0

Statutory revenue and segmental revenue are reported consistently.

1. Segmental analysis (continued)

Segmented balance sheet as at 31 December 2009

	Motor	Home	Other	Unallocated balances	Total
Assets					
Financial assets at fair value through profit or loss	21.8	0.4	0.1	–	22.3
Available-for-sale financial assets	801.8	151.1	54.5	–	1,007.4
Loans at amortised cost	–	–	–	–	–
Other net assets	118.5	9.4	14.3	(50.6)	91.6
Total assets	942.1	160.9	68.9	(50.6)	1,121.3
Equity and liabilities					
Net technical provisions	605.4	101.5	37.1	–	744.0
Capital	–	–	–	377.3	377.3
Total equity and liabilities	605.4	101.5	37.1	377.3	1,121.3

Segmented balance sheet as at 10 January 2009

	Motor	Home	Other	Unallocated balances	Total
Assets					
Financial assets at fair value through profit or loss	355.7	1.6	0.8	–	358.1
Available-for-sale financial assets	505.4	104.0	52.6	–	662.0
Loans at amortised cost	0.5	0.1	–	–	0.6
Other net assets	99.4	2.7	15.6	(29.3)	88.4
Total assets	961.0	108.4	69.0	(29.3)	1,109.1
Equity and liabilities					
Net technical provisions	592.5	111.0	57.8	–	761.3
Capital	–	–	–	347.8	347.8
Total equity and liabilities	592.5	111.0	57.8	347.8	1,109.1

Reconciliation of segmental assets/liabilities to statutory assets/liabilities:

Assets	2009	2008
Total assets for reportable segments	1,121.3	1,109.1
Deferred acquisition costs	36.5	28.6
Reinsurance assets	28.6	19.3
Salvage and subrogation recoveries	41.4	52.6
Other liabilities	53.1	67.1
Consolidated total assets	1,280.9	1,276.7
Liabilities	2009	2008
Total liabilities for reportable segments	744.0	761.3
Deferred acquisition costs	36.5	28.6
Reinsurance assets	28.6	19.3
Salvage and subrogation recoveries	41.4	52.6
Other borrowed funds	105.0	105.0
Other liabilities	53.1	67.1
Consolidated total liabilities	1,008.6	1,033.9

Unallocated balances mainly relate to equity, deferred and current tax balances and other borrowed funds.

Notes to the financial statements

All amounts are stated in £m unless otherwise indicated

2. Net earned premiums

	2009	2008
Gross premiums		
Premiums written	424.3	394.4
Change in unearned premium provision	(27.4)	6.9
Gross earned premiums	396.9	401.3
Outward reinsurance premiums		
Premiums ceded	(23.2)	(19.2)
Change in unearned premium provision	1.7	0.7
Premiums ceded to reinsurers	(21.5)	(18.5)
Net earned premiums	375.4	382.8

3. Fee and commission income

	2009	2008
Reinsurance commission earned	3.6	1.5

4. Investment income

	2009	2008
Interest and similar income from financial assets at fair value through profit or loss:		
Deposits with credit institutions	0.5	3.8
Interest income from available-for-sale financial assets:		
Listed debt securities	55.0	48.4
Unlisted debt securities	0.4	0.4
	55.4	48.8
Total investment income	55.9	52.6

5. Gains less losses arising from financial assets

	2009	2008
Net gains arising on financial assets:		
Available-for-sale listed debt securities	4.1	5.6

6. Other operating income

Other operating income of £0.6m (2008: £0.3m) represents interest received from the Inland Revenue on overpayment of tax.

7. Net policyholder claims paid and benefits

	2009	2008
Gross claims paid		
Current year claims	143.6	153.2
Prior year claims	212.7	250.5
Gross claims paid and benefits	356.3	403.7
Salvage and subrogation		
Current year claims	(13.1)	(12.2)
Prior year claims	(22.7)	(25.2)
Salvage and subrogation	(35.8)	(37.4)
Claims paid and benefits	320.5	366.3
Less receivable from reinsurers		
Current year claims	(2.9)	(4.2)
Prior year claims	(1.8)	(0.3)
Amounts receivable from reinsurers	(4.7)	(4.5)
Net claims paid and benefits	315.8	361.8

8. Fee and commission expenses

	2009	2008
Commission	18.4	11.0
Change in deferred commission	(4.4)	(0.8)
Fees and commissions	14.0	10.2

9. Operating expenses

	2009	2008
Administration expenses	71.8	75.0
Acquisition expenses	54.0	53.3
Non-recurring expenses	15.5	30.9
Operating expenses	141.3	159.2

Items included on the face of the income statement in the column headed 'significant items' relate to CISGIL's share of non-recurring expenses associated with the CFS Group programme of restructuring.

Notes to the financial statements

All amounts are stated in £m unless otherwise indicated

9. Operating expenses (continued)

CISGIL does not have any employees, all sales are effected by staff of CFS Management Services Limited (CFSMS) which also provides administration and other services. CFSMS is also responsible for the remuneration of all directors of the CFS Group, including directors of CISGIL. CISGIL's share is charged at cost, by way of a management service charge from CFSMS.

Operating expenses include the following payments to auditors and their associates:

	2009 £'000	2008 £'000
Audit of these financial statements	136	168
Other services:		
Other services pursuant to legislation	41	36
Other services relating to taxation	–	4
Services relating to information technology	34	113
Services relating to litigation	1	6
Services relating to recruitment and remuneration	–	2
All other services	46	61
	258	390

Specific disclosure of the remuneration of the CFS executive committee in relation to their services to all the CFS Group entities can be found on the 'investor relations' area of the CFS website (www.cfs.co.uk).

10. Impairment gains/(losses) on investments

	2009	2008
Impairment of loans at amortised cost (note 15)	–	(14.9)
Available-for-sale losses in other comprehensive income transferred to profit or loss	–	(11.1)
Writeback of prior year impairment charges	4.5	–
Total impairment gains/(losses) on investment	4.5	(26.0)

Included within available-for-sale losses in other comprehensive income impaired through profit or loss in 2009 is £nil (2008: losses of £4.5m) relating to an asset that was transferred from available-for-sale financial assets to loans at amortised cost (note 14).

11. Income tax

	2009	2008
Current tax		
UK tax for the current year	(0.9)	(8.9)
UK tax adjustments in respect of prior years	(0.7)	0.1
Total current tax credit	(1.6)	(8.8)
Deferred tax		
Origination and reversal of temporary differences	1.3	1.3
Adjustment in respect of prior years	–	(0.1)
Total deferred tax expense	1.3	1.2
Total tax credit recognised in the income statement	(0.3)	(7.6)

Further information about deferred income tax is presented in note 25.

11. Income tax (continued)

Reconciliation of effective tax rate

The tax charge in the income statement differs from the theoretical amount that would arise using the corporation tax rate in the UK as follows:

	2009	2008
Profit/(loss) before income tax	1.5	(26.8)
Tax calculated at domestic corporation tax rate of 28.0% (2008: 28.5%)	0.4	(7.6)
Effect of:		
Tax rate change on deferred tax	–	–
Other adjustments	(0.7)	–
Income tax credit	(0.3)	(7.6)

Income tax included in the income statement is attributable to the shareholder. The rate of corporation tax applicable is 28% (2008: 28.5%).

12. Deferred acquisition cost

	2009	2008
At the beginning of the financial year	28.6	28.5
Deferred acquisition costs	71.6	63.6
Amortisation	(63.7)	(63.5)
At the end of the financial year	36.5	28.6

13. Financial investments at fair value through profit or loss

	2009	2008
Deposits with credit institutions	22.3	358.1

This category comprises short term fixed rate deposits. There has been no reclassification of financial assets between fair value and cost/amortised cost during the current or previous financial year.

No amounts are expected to be recovered after more than one year (2008: £nil).

14. Available-for-sale assets

	2009	2008
Listed debt securities	1,002.5	657.1
Unlisted debt securities	4.9	4.9
Available-for-sale assets	1,007.4	662.0

All debt securities in this category are fixed rate instruments, of which £16.7m (2008: £5.6m) are listed government bonds. Of the total, £169.1m (2008: £139.1m) falls due for settlement within one year, the remainder is non-current.

At the balance sheet date CISGIL had securities with a market value of £11.4m (2008: £9.5m) on loan under approved stock lending arrangements. Eligible collateral, as defined in accounting policy b(i), totalling £11.9m (2008: £10.0m) was held as security.

Included within listed debt securities is an impaired asset with a carrying value of £nil (2008: £3.4m) and accumulated impairment losses of £nil (2008: £6.6m) that have been transferred from other comprehensive income to profit or loss.

Following the amendments to IAS 39 and IFRS 7 (described in the accounting policies section), CISGIL identified one particular debt security that would have met the definition of loans and receivables (if it had not been designated as available-for-sale) due to the market for this instrument being inactive. At 27 July 2008 CISGIL had the intention and ability to hold this instrument for the foreseeable future or until maturity and accordingly the debt security was reclassified. Subsequently, during 2009 this asset was disposed, with sale proceeds of £2.9m.

Notes to the financial statements

All amounts are stated in £m unless otherwise indicated

14. Available-for-sale assets (continued)

As per the amendment to IAS 39, the reclassifications were made with effect from 27 July 2008 at fair value at that date, however the reclassified asset was subsequently impaired. The remaining balance at 10 January 2009 represented the amount that was expected to be recovered. The table below sets out the carrying value and fair values on the instrument:

	31 December 2009		10 January 2009	
	Carrying value	Fair value	Carrying value	Fair value
Available-for-sale assets transferred to loans and receivables	–	–	0.6	0.6

The table below sets out the amounts actually recognised during the financial year in respect of the reclassified instrument:

	Profit or loss 2009	Profit or loss 2008	Equity 2009	Equity 2008
Interest income	0.4	0.2	–	0.6
Net impairment loss	–	(19.4)	–	4.5
Gain on disposal	1.9	–	–	–
Net change in fair value	–	–	–	(4.5)
	2.3	(19.2)	–	0.6

The table below sets out the amounts that would have been recognised in the period following the reclassification during 2008 if the reclassification had not been made:

	Profit or loss	Equity
Interest income	–	–
Net impairment loss	(19.4)	19.4
Net change in fair value	–	(14.3)
	(19.4)	5.1

15. Loans at amortised cost

Loans

	2009	2008
Unlisted debt securities – floating rate	–	15.5
Impairment loss	–	(14.9)
	–	0.6

In 2008 loans at amortised cost reflects one available-for-sale debt security reclassified in 2008. Further information is provided in note 14.

Allowance for losses on loans at amortised cost

Movement in allowance for losses on loans at amortised cost:

	2009	2008
At the beginning of the year	14.9	–
Charge against profits	–	14.9
Utilised in the year	(14.9)	–
At the end of the year	–	14.9

16. Insurance receivables and other assets

	2009	2008
Receivables arising from insurance:		
Arising from insurance operations	111.9	98.3
Salvage and subrogation recoveries	41.4	52.6
Reinsurance operations	1.9	1.4
Other receivables:		
Accrued interest	30.9	21.5
Amounts receivable from group companies	–	11.8
	186.1	185.6

No amounts are expected to be settled after more than one year.

Receivables arising from insurance operations are stated net of an impairment provision of £1.0m (2008: £0.3m). The provision is calculated by reference to net policyholder debt (excluding certain commercial and broker arrangements) in excess of three months overdue. Any adjustment to the level of the provision is recorded within the income statement as an adjustment to written premium.

Insurance receivables and other assets include amounts totalling £19.3m (2008: £16.8m) which are overdue, and are age analysed as follows:

	2009	2008
Amounts overdue:		
Less than 3 months	17.1	14.9
3 to 6 months	0.9	0.9
6 to 12 months	0.6	0.6
More than 12 months	0.7	0.4

Assets past due typically comprise high volume/low value balances for which CISGIL does not seek collateral but continues to work with counterparties to secure settlement. The impairment provision detailed above includes appropriate amounts in respect of these balances.

17. Cash and cash equivalents

Bank overdrafts are repayable on demand and form an integral part of CISGIL's cash management and, as such, are included as cash and cash equivalents for the purpose of the statement of cashflows.

18. Share capital

	2009	2008
Authorised		
183,000,000 ordinary shares of £1 each	183.0	183.0
Allotted and called up		
183,000,000 ordinary shares of £1 each	183.0	183.0

Each shareholder has one vote and an additional vote for every 50 shares or fraction or part held by it in excess of the first 50 shares held.

Notes to the financial statements

All amounts are stated in £m unless otherwise indicated

19. Reserves and retained earnings

	2009	2008
Retained earnings		
At the beginning of the financial year	(19.8)	(0.6)
Profit/(loss) for the year	1.8	(19.2)
At the end of the financial year	(18.0)	(19.8)

Any surplus of retained earnings would represent amounts available for dividend distribution to the equity shareholder of CISGIL.

Reserves include £15.3m (2008: £12.3m) being an amount (net of tax) calculated in compliance with Chapter 1.4 of the Prudential sourcebook for Insurers (INSPRU) which requires general insurers to maintain equalisation provisions.

20. Other borrowed funds

	2009	2008
Subordinated debt	105.0	105.0

£75.0m of subordinated debt was issued to the immediate parent, Co-operative Financial Services Limited (CFS), on 15 January 2006 at par. The debt has a fifteen year term with an option to repay in full at the tenth anniversary. Interest is payable quarterly at 1% above 3 month LIBOR up to the tenth anniversary and at 2% above 3 month LIBOR for the remainder of the term.

During 2007, £30.0m of additional perpetual subordinated debt was issued to CFS in two tranches. £20m was issued on 30 July 2007 followed by a further £10.0m on 15 August 2007. In both cases issue was at par. Both tranches provide for interest payable at 1.5% above 3 month LIBOR for the first five years and 2% above 3 month LIBOR thereafter. The agreements provide the option of full repayment at the fifth anniversary or at quarterly intervals thereafter subject to certain conditions.

Subordinated debt was issued in an arms length transaction at rates comparable to the market at the time of issue.

Financial liabilities in respect of subordinated debt are unsecured, uncollateralised obligations. In the event of the winding-up of CISGIL, payment obligation is subordinated in favour of claims from all other unsubordinated creditors.

Finance costs incurred during the financial period include £2.7m (2008: £7.3m) in relation to interest on the subordinated debt.

There have been no defaults or breaches of contractual obligations attaching to the subordinated debt during the financial year.

21. Insurance contract liabilities and reinsurance assets

(a) Analysis of insurance contract liabilities

	2009	2008
Gross		
Claims reported	443.5	416.2
Claims incurred but not reported	159.8	226.5
Claims settlement expenses	17.3	18.9
Unearned premiums	220.9	193.5
Provision for unexpired risks	9.1	6.7
Total gross insurance liabilities	850.6	861.8
Recoverable from reinsurers		
Claims reported	(6.8)	(4.1)
Claims incurred but not reported	(16.6)	(11.7)
Unearned premiums	(5.2)	(3.5)
Total reinsurers' share of insurance liabilities	(28.6)	(19.3)
Net		
Claims reported	436.7	412.1
Claims incurred but not reported	143.2	214.8
Claims settlement expenses	17.3	18.9
Unearned premiums	215.7	190.0
Provision for unexpired risks	9.1	6.7
Total net insurance liabilities	822.0	842.5

Claims

On 15 January 2006, CISGIL assumed responsibility for the benefits and burdens arising from the run-off of general insurance liabilities of CIS under the terms of an indemnification agreement. Insurance contract liabilities at the end of the year include the following liabilities from the policies written by CIS:

	2009	2008
Outstanding claims	155.4	204.6
Claims incurred but not reported	35.3	51.6
Total gross insurance liabilities	190.7	256.2

Reinsurance is used to limit risk to the balance sheet for the various classes of general insurance direct business. Proportional and non proportional types of reinsurance cover have been purchased in accordance with assumptions made regarding the possible levels of losses and required returns on equity.

(b) General insurance contracts – assumptions, changes in assumptions and sensitivity

i) Basis of assessing liabilities

CISGIL has access to historical data and trends relating to the general insurance business of CIS for which it has now assumed responsibility. CISGIL uses a combination of recognised actuarial and statistical techniques to assess the ultimate cost of claims. These include:

- projecting historic claims payment and recoveries data;
- projecting numbers of claims;
- adjusting case estimates for future inflation and onto a provisioning basis;
- deriving average costs per claim to apply to claim numbers;
- projecting historic claims incurred data (payment plus estimates) – Chain Ladder techniques; and
- Bornhuetter Ferguson/Cape Cod techniques.

21. Insurance contract liabilities and reinsurance assets (continued)

(b) General insurance contracts – assumptions, changes in assumptions and sensitivity (continued)

Extensive use of detailed claims data, including individual case estimates, is made to derive patterns in average claims costs and timings between occurrence and estimate/payment of claims. The most common method used is the Chain Ladder method. This technique involves the analysis of historical claims development trends and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year which is not yet fully developed to produce an estimated ultimate claims cost for each accident year. A degree of judgment is required in selecting the most appropriate development factors.

The Chain Ladder method can be quite volatile for relatively undeveloped origin periods so a Bornhuetter-Ferguson/Cape Cod method is often used in such cases. This method uses some prior expectation of the ultimate claims, and stabilises the projected ultimate by weighting between the prior expected ultimate and the projected based on the assumed development factors. The Cape Cod method differs from the Bornhuetter-Ferguson method in that it uses a trending of ratios (such as the average cost) to arrive at a prior expected ultimate for use in the projections.

The work is undertaken and supervised by suitably qualified personnel. Claims provisions are separately computed for each claim type such as bodily injury, accidental damage, storm, flood and subsidence. All provisions are calculated with explicit allowance for reinsurance and subrogation recoveries. Provisions are not discounted for investment return other than any required additional provision for unexpired risks, periodic payment settlements and provisions relating to asbestos exposure within the electric industry (EIROS claims).

The EIROS reserve was based on a report produced for the industry by EMB (an actuarial consultancy) at the end of 2008, which gave EMB's estimate of both the undiscounted and discounted incurred but not reported (IBNR) reserves as at the end of the third quarter 2008. This was the most recent report available when we calculated our year end 2009 reserves.

The average period to settlement of claims is:

- 12.1 years for Employers' liability;
- 15.5 years for Public and Product's liability; and
- 12.5 years in total.

In both cases, the discount rate is 4.5%.

The criteria adopted for estimating the period that will elapse before the claims are settled used the run-off pattern from previous experience.

As outlined within the risk management section, there is significant uncertainty in the assessment of liabilities and provisions are set to be adequate to cover the eventual cost. Sensitivity analysis is performed to assist the selection of key parameters and, hence, the provisions adopted. There is a governance process in place to ensure that provisions are subject to detailed review regarding the appropriateness of key assumptions and the quantum of the provisions established.

ii) Key assumptions

Principal assumptions underlying the claims provisions include:

- explicit allowance for future inflation at rates varying from 0% pa to 8.25% pa according to the claim type. The range of future inflation rates is largely unchanged from that used at the previous year-end; and
- for bodily injury claims allowance has been made for:
 - i. use of the Ogden Tables at a discount rate of 2.25%;
 - ii. increased awards for general damages in accordance with the 8th edition of the JSB guidelines;
 - iii. a small proportion of large claims being settled by periodic payments; and
 - iv. improvements in the case estimation techniques resulting in earlier recognition of the size of claim.

The gross insurance provision for claims and loss adjustment expenses arising in respect of prior years of £418.4m (2008: £445.0m) includes a movement of £30.6m (2008: £58.3m) arising from changes in assumptions and release of surplus, details are as follows:

21. Insurance contract liabilities and reinsurance assets (continued)

	2009	2008
The extent of the expected speeding up of payment pattern for fire and accident	8.1	(2.9)
Movement on large fire and accident claims	2.0	(2.0)
Reduction in volume of motor claims	3.4	8.3
Reduction in severity of motor claims	16.2	54.9
Discounting of long term liabilities	2.5	–
Movement on claims handling expenses	(1.6)	–
Movement in gross insurance liabilities	30.6	58.3

iii) Sensitivity analysis

There is greater uncertainty over motor claims provisions than other provisions as they typically involve claims for bodily injury and associated legal costs and therefore typically have a longer period to settlement. Motor provisions represent the most significant proportion of the total general insurance outstanding claims liabilities (gross of salvage and subrogation). Sensitivity information is given for motor claims provisions together with limited information for all other classes. The following table indicates the effect on gross claims provisions (gross of reinsurance and salvage and subrogation) and the net provisions (net of reinsurance but gross of salvage and subrogation) of changes in key assumptions. Impacts to net technical provisions have an equivalent impact to profitability.

Amendments to reserving methodology have meant that sensitivity analyses of average cost per claim for third party property damage and the effect of changing the Ogden rate for liability business are no longer available.

2009 Assumption	Change in parameter	Effect on gross provision £m	% Effect	Effect on net provision £m	% Effect
Motor					
Average cost of claims for last 3 years – bodily injury	+10%	+20.3	4.9%	+20.3	5.3%
Average cost of claims for last 3 years – legal	+10%	+14.9	3.6%	+14.9	3.8%
Mean term to settlement – bodily injury and legal	+½ year	+11.8	2.9%	+11.8	3.1%
Rate of future inflation – bodily injury and legal	+1%	+8.2	2.0%	+7.8	2.0%
Ogden discount rate – bodily injury	-¼%	+3.4	0.7%	+1.4	0.3%
Other classes					
Mean term to settlement (liability)	+½ year	+0.7	2.5%	+0.7	2.5%
Mean term to settlement (non-liability)	+½ year	+0.7	1.2%	+0.6	1.4%
Rate of future inflation (liability)	+1%	+1.9	6.9%	+2.0	7.0%
Rate of future inflation (non-liability)	+1%	+0.7	1.3%	+0.6	1.3%
2008 Assumption	Change in parameter	Effect on gross provision £m	% Effect	Effect on net provision £m	% Effect
Motor					
Average cost of claims for last 3 years – bodily injury	+10%	+20.4	4.2%	+20.4	4.2%
Average cost of claims for last 3 years – legal	+10%	+14.6	3.0%	+14.6	3.0%
Average cost of claims for last 3 years – third party property damage	+10%	+10.9	2.3%	+10.9	2.3%
Mean term to settlement – bodily injury and legal	+½ year	+8.9	1.9%	+8.9	1.4%
Rate of future inflation – bodily injury and legal	+1%	+6.7	1.4%	+6.7	1.4%
Ogden discount rate – bodily injury	-¼%	+3.6	0.8%	+3.2	0.7%
Other classes					
Mean term to settlement (liability)	+½ year	+1.0	3.0%	+1.0	3.0%
Mean term to settlement (non-liability)	+½ year	+1.3	2.0%	+1.3	2.0%
Rate of future inflation (liability)	+1%	+1.8	5.4%	+1.8	5.4%
Rate of future inflation (non-liability)	+1%	+0.8	1.1%	+0.7	1.1%
Ogden discount rate (liability)	-¼%	+0.3	1.0%	+0.3	1.0%

21. Insurance contract liabilities and reinsurance assets (continued)**(c) Change in general insurance liabilities and reinsurance assets****(i) Change in insurance contract liabilities (net of salvage and subrogation)**

	Gross 2009	Unexpired risk provision 2009	Salvage & subrogation 2009	Net 2009	Gross 2008	Unexpired risk provision 2008	Salvage & subrogation 2008	Net 2008
At the beginning of the financial year	661.6	6.7	(52.6)	615.7	753.7	5.7	(53.5)	705.9
Movement in the year	(41.0)	2.4	11.2	(27.4)	(92.1)	1.0	0.9	(90.2)
At the end of the financial year	620.6	9.1	(41.4)	588.3	661.6	6.7	(52.6)	615.7

Salvage and subrogation is included within assets as part of insurance receivables (note 16).

(ii) General insurance – claims and loss adjustment expenses

	2009 Gross	2009 Reinsurance	2009 Net	2008 Gross	2008 Reinsurance	2008 Net
Notified outstanding claims	416.2	(4.1)	412.1	408.7	(2.3)	406.4
Claims incurred but not reported	226.5	(11.7)	214.8	322.7	(6.9)	315.8
Claims settlement expenses	18.9	–	18.9	22.3	–	22.3
At the beginning of the financial year	661.6	(15.8)	645.8	753.7	(9.2)	744.5
Claims paid during the financial year	(356.3)	4.7	(351.6)	(403.7)	4.5	(399.2)
Increase in liabilities:						
Arising from current year claims	345.9	(12.8)	333.1	369.9	(12.7)	357.2
Arising from prior year claims	(30.6)	0.5	(30.1)	(58.3)	1.6	(56.7)
Total movement	(41.0)	(7.6)	(48.6)	(92.1)	(6.6)	(98.7)
Notified outstanding claims	443.5	(6.8)	436.7	416.2	(4.1)	412.1
Claims incurred but not reported	159.8	(16.6)	143.2	226.5	(11.7)	214.8
Claims settlement expenses	17.3	–	17.3	18.9	–	18.9
At the end of the financial year	620.6	(23.4)	597.2	661.6	(15.8)	645.8

(iii) General insurance – provisions for unearned premiums

	2009 Gross	2009 Reinsurance	2009 Net	2008 Gross	2008 Reinsurance	2008 Net
At the beginning of the financial year	193.5	(3.5)	190.0	200.4	(2.8)	197.6
Increase in the financial year	424.3	(23.2)	401.1	394.4	(19.2)	375.2
Release in the financial year	(396.9)	21.5	(375.4)	(401.3)	18.5	(382.8)
Movement in the financial year	27.4	(1.7)	25.7	(6.9)	(0.7)	(7.6)
At the end of the financial year	220.9	(5.2)	215.7	193.5	(3.5)	190.0

21. Insurance contract liabilities and reinsurance assets (continued)

(iv) General insurance – provisions for unexpired risk

	2009 Gross	2009 Reinsurance	2009 Net	2008 Gross	2008 Reinsurance	2008 Net
At the beginning of the financial year	6.7	–	6.7	5.7	–	5.7
Increase in the financial year	9.1	–	9.1	6.7	–	6.7
Release in the financial year	(6.7)	–	(6.7)	(5.7)	–	(5.7)
Movement in the financial year	2.4	–	2.4	1.0	–	1.0
At the end of the financial year	9.1	–	9.1	6.7	–	6.7

Additional provision is made for unexpired risks where the claims and expense, likely to arise after the end of the financial year, in respect of contracts concluded before that date, are expected to exceed the unearned premiums at the end of the financial year. The provision primarily relates to the motor class of business.

(v) Analysis of claims development

Gross of reinsurance	Accident year			2009	Total
	2006	2007	2008		
At end of the accident year:	1,367.9	384.5	347.3	325.8	2,425.5
One year later	1,264.7	387.8	319.7	–	1,972.2
Two years later	1,199.3	378.3	–	–	1,577.6
Three years later	1,206.8	–	–	–	1,206.8
Estimate for cumulative claims	1,206.8	378.3	319.7	325.8	2,230.6
Cumulative payments to date	(966.5)	(297.6)	(226.4)	(134.3)	(1,624.8)
Gross outstanding claims liabilities before discounting	240.3	80.7	93.3	191.5	605.8
Discounting					(2.5)
Gross outstanding claims liabilities					603.3
Gross claims reported					443.5
Gross claims incurred but not reported					159.8
Gross outstanding claims liabilities					603.3
Net of reinsurance	Accident year			2009	Total
	2006	2007	2008		
At end of the accident year:	1,362.9	372.6	334.6	313.0	2,383.1
One year later	1,261.4	377.6	305.5	–	1,944.5
Two years later	1,195.9	369.6	–	–	1,565.5
Three years later	1,203.9	–	–	–	1,203.9
Estimate for cumulative claims	1,203.9	369.6	305.5	313.0	2,192.0
Cumulative payments to date	(964.4)	(292.6)	(221.2)	(131.4)	(1,609.6)
Net outstanding claims liabilities before discounting	239.5	77.0	84.3	181.6	582.4
Discounting					(2.5)
Net outstanding claims liabilities					579.9
Net claims reported					436.7
Net claims incurred but not reported					143.2
Net outstanding claims liabilities					579.9

Notes to the financial statements

All amounts are stated in £m unless otherwise indicated

22. Other provisions

	2009	2008
At the beginning of the financial year	–	1.0
Provision released	–	(1.0)
At the end of the financial year	–	–

The movement during the prior year represents the release of provisions established to cover potential balance sheet exposures.

23. Insurance and other payables

	2009	2008
Arising out of direct insurance operations	2.4	2.8
Accruals and deferred income	9.1	2.9
Other taxation and social security	8.3	7.6
Amounts due to group companies	2.7	10.5
Other payables	4.9	26.8
	27.4	50.6

No amounts are expected to be settled after more than one year.

24. Other reinsurance liabilities

	2009	2008
Deposits received from reinsurers	0.1	0.1
Arising from reinsurance operations	7.9	5.4
	8.0	5.5

No amounts are expected to be settled after more than one year.

25. Income tax

	2009	2008
Current tax		
Asset/(liability) at the beginning of the financial year	22.5	(11.8)
Tax credited to the income statement	1.6	8.8
Tax charged/(credited) directly to other comprehensive income:		
Valuation losses/(gains) on available-for-sale assets taken to other comprehensive income	(10.8)	3.3
Dividends paid	–	11.7
Tax (recovered)/paid during the financial year	(20.1)	10.5
(Liability)/asset at the end of the financial year	(6.8)	22.5

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2008: 28%).

	2009	2008
Deferred tax liability		
(Liability) at the beginning of the financial year	(3.9)	(2.7)
Tax charged to income statement	(1.3)	(1.2)
(Liability) at the end of the financial year	(5.2)	(3.9)
<i>Analysis of deferred tax liability</i>		
Claims equalisation reserve	(5.9)	(4.8)
Other timing differences	0.7	0.9
(Liability) at the end of the financial year	(5.2)	(3.9)

26. Employment benefits

Defined contribution basis

With effect from 6 April 2006 CISGIL, along with other businesses within The Co-operative Group, has participated in The Co-operative Group Pension Average Career Earnings Scheme (the PACE scheme). The PACE scheme is a defined benefit scheme, the assets of which are held in a separate fund administered by trustees. As a group-wide pension scheme, the PACE scheme exposes the participating businesses to actuarial risks associated with the current and former employees of other group companies, with the result that there is no consistent and reliable basis for allocating the liabilities, assets and costs to individual companies participating in the scheme. Therefore the pension cost shown in these accounts in respect of the PACE scheme for the period after 6 April 2006 are the actual contributions paid by CISGIL.

The key aspects of Co-operative Group Limited's PACE scheme, which consists of companies that are all under common control, are as follows:

	2009	2008
Assumptions used to determine PACE scheme liabilities are:		
Discount rate	5.60%	5.70%
Rate of increase in salaries	5.30%	4.75%
Future pension increases where capped at 5.0% pa	3.80%	3.25%
Future pension increases where capped at 2.5% pa	2.50%	2.50%
Assumptions used to determine net pension cost for PACE scheme are:		
Discount rate	5.70%	5.65%
Expected long term return on scheme assets	6.40%	6.40%
Rate of increase in salaries	4.75%	5.15%

The average life expectancy (in years) for mortality tables used to determine PACE scheme liabilities are:

	Male	Female
Life expectancy at age 65		
Member currently aged 65 (current life expectancy)	20.4	23.2
Member currently aged 45 (life expectancy at age 65)	21.3	24.1

	2009	2008
The amounts recognised in the balance sheet of The Co-operative Group are as follows:		
Present value of funded obligations	(5,509.0)	(4,799.9)
Present value of unfunded obligations	(3.8)	(3.5)
Fair value of plan assets	5,514.4	5,204.6
	1.6	401.2

	2009	2008
The weighted-average asset allocations at the year end were as follows:		
Equities	35%	42%
Liability-driven investments	54%	54%
Alternative growth	6%	0%
Property	4%	4%
Cash	1%	0%

To develop the expected long term rate of return on assets assumption, the group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long term rate of return on assets assumption for the portfolio. This resulted in the selection of the 6.40% assumption for the current reporting period.

27. Contingent assets and liabilities

No contingent assets or liabilities have been identified at 31 December 2009 (2008: £nil).

Notes to the financial statements

All amounts are stated in £m unless otherwise indicated

28. Commitments

No commitments are in place as at 31 December 2009 (2008: £nil).

29. Parent undertaking

CIS General Insurance Limited, a wholly-owned subsidiary of Co-operative Financial Services Limited, is incorporated in Great Britain as an Industrial and Provident Society and is registered in England and Wales.

Co-operative Group Limited is the ultimate parent and is incorporated in Great Britain as an Industrial and Provident Society and is registered in England and Wales. The results of CISGIL are consolidated in the group headed by the Co-operative Group Limited. The financial statements of the immediate and ultimate holding organisations are available from New Century House, Manchester, M60 4ES.

30. Related party transactions

A number of transactions have been entered into during the course of the year with related parties. These have been conducted in the normal course of business and on normal commercial terms. These include the provision of insurance products to members of the wider Co-operative Group and key management personnel.

Key management (as defined by IAS 24) are considered to include the Board and executive members of the group and their close family members. Details of transactions and balances during the financial period are provided below.

	Balances with parent undertaking 2009	Balances with other related parties 2009	Balances with parent undertaking 2008	Balances with other related parties 2008
Balances with related parties				
At the beginning of the financial year	(105.0)	(262.0)	(105.0)	(445.1)
Movement in capital value	–	71.4	–	183.1
At the end of the financial year	(105.0)	(190.6)	(105.0)	(262.0)

During the financial period CISGIL has settled claims of £76.3m (2008: £106.5m) under the terms of an indemnification agreement to reinsure the general insurance liabilities of CIS in run-off. Gross technical provisions in the balance sheet include £190.7m (2008: £256.1m), being outstanding claims liabilities.

CISGIL has issued subordinated debt to its intermediate parent, CFS. Interest during the financial period amounted to £2.7m (2008: £7.3m).

CISGIL paid a membership dividend to its ultimate parent, the Co-operative Group Limited, during the year of £3.0m (2008: £1.9m).

CISGIL have bank accounts with The Co-operative Bank plc a fellow subsidiary. At the end of 2009, the aggregate balance stood at £2.7m (2008: £2.7m).

Co-operative Legal Services Limited, a fellow subsidiary of the Co-operative Group Limited, provides legal cover to CISGIL motor and home policyholders. CISGIL has incurred £0.4m (2008: £1.0m) as an expense in relation to this cover.

During the year management fees of £165.9m (2008: £184.0m) included in operating expenses and claims incurred were charged to CISGIL from CFSMS.

Notes



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