

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

CIS General Insurance Limited  
**Support and security** in the community.

Financial statements 2008





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## 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.

### Highlights

CISGIL achieved an operating profit before tax and significant items of £6.0m (2007:£64.3m) despite investment losses in the turbulent market conditions. Earned premiums were lower than last year reflecting the move to a lower risk profile and resulting lower average premiums.

The performance of the General Insurance business in 2008 was affected by investment losses of £26m arising from turbulent market conditions and a relatively small number of large claims. In addition 2007 benefited relative to 2008 from the net impact of reserve releases partially offset by weather related claims costs. Excluding the one off claims impacts, the underlying claims ratio was similar for 2008 and 2007.

### Results summary

	<b>2008</b>	2007	Change	Change
	<b>£m</b>	£m	£m	%
Net earned premiums	<b>382.8</b>	419.5	(36.7)	(8.7%)
Claims	<b>(265.0)</b>	(269.7)	4.7	1.7%
Investment return	<b>32.2</b>	60.0	(27.8)	(46.3%)
Commission & expenses	<b>(138.5)</b>	(139.8)	1.3	0.9%
Other income	<b>1.8</b>	0.5	1.3	260.0%
Interest payable	<b>(7.3)</b>	(6.2)	(1.1)	(17.7%)
<b>Operating profit before tax and significant items</b>	<b>6.0</b>	<b>64.3</b>	<b>(58.3)</b>	<b>(90.7%)</b>
Profit based payments to members of The Co-operative Group	<b>(1.9)</b>	(0.7)	(1.2)	(171.4%)
<b>Profit before tax and significant items</b>	<b>4.1</b>	<b>63.6</b>	<b>(59.5)</b>	<b>(93.6%)</b>
Significant items	<b>(30.9)</b>	(29.5)	(1.4)	(4.7%)
<b>(Loss)/profit before tax</b>	<b>(26.8)</b>	<b>34.1</b>	<b>(60.9)</b>	<b>(178.6%)</b>
Gross written premiums	<b>394.4</b>	412.8	(18.4)	(4.5%)
Claims ratio	<b>69.2%</b>	64.3%	–	4.9%
Commission and expense ratio (excluding non-recurring expenses)	<b>36.2%</b>	33.3%	–	2.9%
Combined ratio (excluding non-recurring expenses)	<b>105.4%</b>	97.6%	–	7.8%

Gross Written Premium (GWP) decreased by £18.4m to £394.4m. New business premiums have increased by 13% compared to 2007, more than offset by a reduction in renewal premiums following actions to exit less profitable business. The decline in renewal premiums has now stabilised as retention rates have improved compared to 2007. Over the last few years General Insurance has continued to move to becoming a direct writer of business, with the increase in new business premium mainly attributable to the direct channels, where growth has out-stripped the decline in Financial Advisor sales. In addition to the change in distribution mix, 2008 new business has also seen a change in the customer profile leading to lower average premiums reflecting a better risk profile.

This year has seen further expansion into the direct market through the launch of our motor product onto two further aggregator sites 'Go Compare' and 'Compare The Market', in addition to the two launches at the end of 2007. Both of these additional sites have shown a good sales performance in 2008. February 2008 saw the launch of the new modular motor insurance product in the Customer Contact Centre and on the Co-operative Insurance website. The new product allows General Insurance customers to tailor their insurance to their individual needs, by offering basic cover at a low price. It also offers flexibility by allowing them to choose between a range of optional extras, such as legal expenses cover.

During 2006, we modernised our entire claims handling process. The 2007 results included ongoing and one-off benefits generated from improved and faster claims settlements and from the closure of a significant volume of older motor claims more than offsetting £38m of weather events, whilst in 2008, claims have been impacted by costs on new large claims, mainly from exposures in earlier years. The Claims ratio of 69.2% was broadly in line with our expectations and compares to 64.3% in 2007.

Operating costs, including commission charges, have continued to improve and have fallen by £1.3m (1%). The increased expense ratio of 36.2% (2007: 33.3%) reflects the decline in earned premiums described earlier.

We have delivered the first stage of our journey to improve the way we manage customer correspondence. The majority of our General Insurance letters sent to customers have now been migrated to our new print platform. We are working with Xerox to establish a core image handling capability which has initially been deployed to handle claims correspondence. This capability will be expanded and deployed across other business areas and start to include outbound correspondence over the next 12 – 18 months.

Customer satisfaction for December 2008 stands at 78.5%, an increase of 3.1% compared to December 2007 (75.4%), which remains well above the market average.

Our service was also recognised at the Your Money awards where Co-operative Insurance was awarded Best Online Motor Insurance provider.

### **Investment in the future**

Co-operative Financial Services (CFS) started the journey in 2006 to better serve its 6 million customers through transforming its business and technology capabilities.

CFS has commenced a substantial investment in new technology in 2008, via an Enterprise Platform Programme, to replace our retail and corporate banking system. This investment will allow CFS to re-engineer its customer facing and internal processes, and will provide an opportunity for further integration of our Banking infrastructure with that of the Insurance businesses so that we can be truly customer centric in the way we sell to and serve our customer base. This investment supports our customer relationship strategy across Banking, Insurance and Investments to deliver attractive, fair, accessible products on a scaleable multi-channel basis.

The investments so far have delivered a number of notable successes. Since early 2007, CFS has delivered significant underlying cost reductions. This has been realised through a range of activities including headcount reduction, improved procurement contracts, simplified business processes, enhanced capabilities, and an element of premises rationalisation.

People in our customer-facing roles were unaffected by these headcount reductions and CFS has re-affirmed its commitment not to off-shore any of its customer-facing sales and service operations.

The extensive restructuring and modernisation of the business has necessitated substantial investment resulting in CISGIL's significant items of £30.9m in 2008 (2007: £29.5m).

After taking account of significant items, the result was a loss before tax of £26.8m compared to a profit of £34.1m in 2007.

### **Summary and outlook**

CISGIL, as a significant element of CFS, has made good progress towards our vision 'to the UK's most admired financial services business'.

Our strategy is serving us well and our business performance highlights the underlying strength and sustainability of our business, which is seeing increasing numbers of customers recognising our brand commitment to value, fairness and social responsibility.

2009 will bring further challenges and the economic outlook is uncertain. We will continue to deliver change initiatives, which will deliver immediate benefits, meet regulatory requirements and further improve the control environment. Managing our cost base will continue to be a priority.

Whilst we are not immune from the economic changes, we have a robust business model, strong brand and a clear path for the future of our business, including our proposed merger with Britannia Building Society. If approved, this will provide our customers with access to an expanded network of more than 300 branches and will create a strongly capitalised business with £70 billion of assets and nine million customers.

## Key performance indicators

CISGIL's key performance indicators are derived from the success measures on the CFS Group's journey towards our aspirational vision 'to be the UK's most admired financial services business' and the performance criteria in staff and Executive incentive schemes.

### 1. Profit generation to create a sustainable model

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 were marginally better than planned but after inclusion of investment losses, profits were below target.

Claims ratio is calculated as net claims incurred divided by net earned premium. This was better than our targeted level for 2008.

Combined ratio is the ratio of net claims incurred, commission and expenses to net earned premium. This was in line with our plans.

### 2. Market leading colleague satisfaction

At the Co-operative Financial Services we are very aware that our success is driven by our people, and throughout 2008 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 three core elements:

- 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 2008, the EI score was 64%, an increase of 11 percentage points from the previous year. This represents remarkable progress against our strategic plan, which was to increase the EI score by 5 percentage points per year, and demonstrates the effectiveness of the corporate strategies in 2008. These included:

- The Leadership Challenge – an in-depth development programme for more than 1,100 people managers across the organisation to develop understanding of best practice around the behavioural aspects of leadership; and
- The good with money event – a one-day workshop for all colleagues to develop their understanding of our brand proposition and their role in delivering this.

Our strategic target will continue to be based on the average EI for the Hay Group Insight High Performance Norm Group – a group of top-performing global organisations across all sectors that work with Hay Group Insight, our partner organisation in the administration and interpretation of the ECHO Survey. In 2008, the High Performance Norm Group EI was 77%.

In 2009, we will work to further improve our engagement score, and also look at how, as an organisation, we make the most of this high level of engagement by making sure our processes and support allows these engaged colleagues to be as effective as they can be in providing products and services to our customers and members.

### 3. Market leading customer satisfaction

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 – Extremely, Very, Fairly, Neither/Nor, Fairly Dissatisfied, Very Dissatisfied, Extremely Dissatisfied. Product level scores (based on Extremely & Very Satisfied responses) 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.

A target measure of 64.6% was set at the start of 2008 against which CFS has performed well, achieving the targeted score (64.6%) at the end of December. There has been a trend of improvement for the General Insurance business with a score for Extremely/Very Satisfied of 78.5%, compared to 68.7% for the market (Top Five by Market Share).

#### 4. Market leading social responsibility approach

In 2008, CFS measured its progress towards its goal of a market leading social responsibility approach using the following three indicators. Two of the three targets set for attainment in 2008 have been achieved, and one has been partially achieved.

The first indicator looks at unprompted public awareness of the Bank and Co-operative Insurance / Investments as financial services businesses that take social responsibility into account. This measure derives from an independent survey of 1,000 members of the general public, which, in 2008, was undertaken in March. Targets set for 2008 sought a number one ranking for the Bank and number two ranking for Co-operative Insurance / Investments. Against these, the Bank retained the number one ranking, with a score of 8% (2007: 11%), and Co-operative Insurance / Investments ranked joint third, recording unprompted awareness of 2% (2007: 3%).

The second and third indicators look at performance in Business in the Community's Corporate Responsibility Index and Environment Index. The Indexes are voluntary self-assessment surveys that benchmark Corporate Responsibility and Environmental strategy (and their integration), management, reporting and performance across a range of issues. The 2008 targets were to seek a Platinum (leading group) ranking for CFS by achieving a score of 95% or more in both Indexes. In the Corporate Responsibility Index 2007, which was published in May 2008, CFS achieved a Platinum ranking, attaining a score of 98% and emerging as a sector leader. In the Environment Index, CFS achieved a Platinum ranking, attaining a score of 99%. In relation to the 2008 index, CFS will be seeking to maintain its Platinum ranking.

#### 5. Growing and engaging membership

##### *Increase in active members*

The Co-operative Group is jointly owned and democratically controlled by its members. Members of our co-operative enjoy a share in our profits and can exercise their democratic control, with equal rights and benefits. Growing a strong and committed membership base is integral to our vision and beliefs and is an integral part of our brand. Growing engagement with our customers via membership is a key element in delivering a competitive advantage and achieving our social goals.

Whilst we are committed to growing our membership base, we recognise the importance of ensuring that our members are engaged with the co-operative. True engagement will be reflected in both transactional and democratic participation. The focus of 2009 is therefore to drive active engagement from our members. This will be demonstrated by increasing participation rates across the diverse range of businesses offered by the Co-operative Group, so that individual members transact with multiple businesses. Inevitably, this type of activity will also attract new members. In 2008, the number of Co-operative members trading with The Co-operative Financial Services increased by over 140,000, which was a massive increase of 33% on 2007's performance.

##### *Growth in total points earned*

A key element of the brand and membership programmes has been the introduction of a true dividend where members receive a share of our profits by way of a cash dividend, the scale of which is directly determined by the value of trade that they have carried out across our various businesses.

As part of our aim to grow and engage membership, therefore, we track the total value of points earned by members through their trade across our businesses. Members earn points for every £1 they spend with all of our businesses, from holidays and food to insurance and banking. The total points earned by members are captured within our dividend system and determine, for each individual member, the size of their share of our profits. In 2008 members earned 1,912 million points, an increase of 35% on the prior year.

# CIS General Insurance Limited

## Non-Executive Directors:

- Simon Butler** (BEd (Hons)). Age 54. Joined the Board in 2005 when he was appointed Chair. Member of the Central & Eastern Regional Board of Co-operative Group Limited and has been involved with consumer co-operatives for over 20 years. Non-Executive Director of Co-operative Group Limited, Co-operative Financial Services Limited and The Co-operative Bank p.l.c., and Chair of Co-operative Insurance Society Limited.
- Graham Bennett** (CCMI). Age 58. Joined the Board in 2005. Spent his management career with Southern Co-operatives where he was the Society's Chief Executive for 25 years, and is now the Head of Investment Property. Vice Chairman of Unity Trust Bank plc. Chair of The Co-operative Bank p.l.c., and Non-Executive Director of Co-operative Group Limited, Co-operative Financial Services Limited and Co-operative Insurance Society Limited.
- Bob Burlton** (BSc (Hons), Cert Dip). Age 60. Joined the Board in 2005. Strategic Projects Executive at Midcounties Co-operative. Elected President of Consumer Co-operatives Worldwide in 2005. Non-Executive Director of Co-operative Group Limited, The Co-operative Bank p.l.c., and Co-operative Insurance Society Limited and Chair of Co-operative Financial Services Limited.
- David Davies** (BSc (Econ), FIA). Age 61. Joined the Board in 2005 and is the Senior Independent Director. Qualified as an actuary. Chair of Sun Life Assurance Company of Canada (UK) and Nortel Network Pension Scheme in the UK. Also holds directorships with Hermes Fund Managers and Policy Mutual Assurance Society. Non-Executive Director of Co-operative Financial Services Limited, The Co-operative Bank p.l.c., and Co-operative Insurance Society Limited.
- Paul Hewitt** (MA, ACA, Dip German (Open)). Age 53. Joined the Board in 2005. Holds Non-Executive Directorships with Kiln, GMT Aviation, and the Personal Accounts Delivery Authority, and is Chair of YSC, an HR consultancy. Professional Non-Executive Director of Co-operative Financial Services Limited, The Co-operative Bank p.l.c., and Co-operative Insurance Society Limited.
- Terry Morton** (BSc (Hons), CEng, MIET, MCMI). Age 63. Joined the Board in 2005. Member of the North East & Cumbrian Regional Board of Co-operative Group Limited. Managing Secretary of Durham Alliance for Community Care, a member co-operative that provides day care for challenged older people. Non-Executive Director of Co-operative Group Limited, Co-operative Financial Services Limited, The Co-operative Bank p.l.c., and Co-operative Insurance Society Limited.
- Bob Newton** (BSc, FIA, CDir). Age 59. Joined the Board in 2007. Retired from the insurance industry in 2006, since when he has built up a portfolio of business and pro bono interests. Holds Non-Executive Directorships with UIA (Insurance) Limited, and AI Claims Solutions plc. Independent Professional Non-Executive Director of Co-operative Financial Services Limited, The Co-operative Bank p.l.c., and Co-operative Insurance Society Limited.
- Kathryn Smith** Age 49. Joined the Board in 2006. Member of the South East Regional Board of Co-operative Group Limited and South London Area Committee where she became Chair in 1990. Also Chair of Co-operative Action Limited and Co-operative Action Foundation. Director of Social Enterprise London, and Chair of Co-operatives London. Non-Executive Director of Co-operative Group Limited, Co-operative Financial Services Limited, The Co-operative Bank p.l.c., and Co-operative Insurance Society Limited.
- Graham Stow** (CBE, FCIB, FCIPD, FRSA). Age 64. Joined the Board in 2005. Former Chief Executive of Britannia Building Society and Chair of Building Societies Association. Chair of IPRISM Underwriting Agency, Member of the Advisory Board of Kiddy & Partners, and Chair of the Governors of Staffordshire University. Non-Executive Director of Co-operative Financial Services Limited, The Co-operative Bank p.l.c., and Co-operative Insurance Society Limited.
- Len Wardle** Age 64. Joined the Board in 2005. Member of the South East Regional Board of Co-operative Group Limited. Held management positions in local government and was latterly a Fellow at the University of Surrey in the School of Management. Director of Communicate Mutuality Limited. Chair of Co-operative Group Limited, Non-Executive Director of Co-operative Financial Services Limited, The Co-operative Bank p.l.c., and Co-operative Insurance Society Limited.
- Martyn Wates** (ACA, ATII, BA (Hons)). Age 42. Joined the Board in 2007. Appointed Chief Financial Officer of Co-operative Group Limited following its merger with United Co-operatives and has held various finance positions within the co-operative movement. Non-Executive Director of Co-operative Financial Services Limited, The Co-operative Bank p.l.c., and Co-operative Insurance Society Limited.

**Stephen Watts** (MA (Cantab)). Age 57. Joined the Board in 2005. Member of the Central & Eastern Regional Board of Co-operative Group Limited. Works for Cambridge Regional College as Pricing, Research, and Information Officer within the Directorate of Employment & Skills. Non-Executive Director of Co-operative Group Limited, Co-operative Financial Services Limited, The Co-operative Bank p.l.c., and Co-operative Insurance Society Limited.

**Piers Williamson** (BA (Hons), ACIB, MCT). Age 47. Joined the Board in 2005. Holds Non-Executive Directorships with various Industrial and Provident Societies and funding vehicles associated with the Housing Finance Corporation where he is Chief Executive. Independent Professional Non-Executive Director of Co-operative Financial Services Limited, The Co-operative Bank p.l.c., and Co-operative Insurance Society Limited.

#### Executive Directors:

**David Anderson** (MA (Oxon)). Age 53. Joined the Board in 2005. Chief Executive of CIS General Insurance Limited. Prior to joining the group, was Chief Executive of Jobcentre Plus and Yorkshire Building Society. Also Chief Executive of Co-operative Financial Services Limited, The Co-operative Bank p.l.c., and Co-operative Insurance Society Limited.

**Dick Parkhouse** (LLB, MBA, CIB). Age 54. Joined the Board in 2008. Managing Director, Retail Division. Also Executive Director of Co-operative Financial Services Limited, The Co-operative Bank p.l.c., and Co-operative Insurance Society Limited.

**John Reizenstein** (MA (Cantab)). Age 52. Joined the Board in 2005. Managing Director, Corporate & Markets. A member of the Financial Reporting Review Panel, an advisory Board member of Bridges Ventures and a Vice President of Save the Children. Chair of The Co-operative Asset Management Limited. Also Executive Director of Co-operative Financial Services Limited, The Co-operative Bank p.l.c., and Co-operative Insurance Society Limited.

**Barry Tootell** (BA (Hons), 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. Also Executive Director of Co-operative Financial Services Limited, The Co-operative Bank p.l.c., and Co-operative Insurance Society Limited.

# Report of the Board of Directors

## Business review

CIS General Insurance Limited (CISGIL) was incorporated on 29 September 2005 to transact general insurance business formerly transacted by CIS Limited, 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 21 to 28, CISGIL's key financial and non-financial performance indicators are described on pages 4 and 5.

## Principal Activities

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

## 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 6 and 7. Barry Tootell was appointed to the Board with effect from 4 April 2008. Dick Parkhouse and Gerry Pennell were appointed to the Board with effect from 22 August 2008 when Stephan Pater resigned from the Board. Gerry Pennell resigned from the Board with effect from 3 October 2008.

## Election of Directors

The Directors of the Board are elected by the members in accordance with the Rules of the Society.

## Results and distributions

General insurance gross written premiums were £394.4m (2007: £412.8m) and net earned premiums were £382.8m (2007: £419.5m).

Losses of £19.2m (2007: Profit of £24.2m) have been transferred to reserves.

No interim dividend was paid during 2008 (2007: £nil). A final dividend of £41.0m in respect of 2007 was paid during the year. No final dividend has been recommended for 2008.

## Directors and their interests

No Director had a material interest at any time during the year in any contract of significance with CISGIL.

## 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 CFS Management Services Limited, 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 will be published towards the latter half of the financial year, 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 p.l.c., 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 Directors' report and the financial statements**

The Directors are responsible for preparing the Annual Report and the Society 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 1993 and 2005 (Amendments) (the Regulations), requires the Directors to prepare financial statements for each financial year. In accordance with the Regulations the Directors have elected to prepare the Society financial statements in accordance with IFRS as adopted by the EU.

The Society 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 1985, 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 each of the Society financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether 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 CISGIL 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 1993 and 2005 (Amendments), which modified the Industrial and Provident Societies Acts 1965 to 2002. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society 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 1993 and 2005 (Amendments), which modified the Industrial and Provident Societies Acts 1965 to 2002.

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 CISGIL 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 CISGIL's financial statements.

## **Auditor**

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 Annual General Meeting.

By Order of the Board  
Moira Lees, Secretary  
2 April 2009

## Independent auditors' report

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

We have audited the financial statements of CIS General Insurance Limited ('the Society') for the 52 week period ended 10 January 2009 which comprise the income statement, the balance sheet, the cash flow statement, the statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Society's members, as a body, in accordance with the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 1993 and 2005 (Amendments), which modified the Industrial and Provident Societies Acts 1965 to 2002. 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 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 its 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 Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) 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 and are properly prepared in accordance with the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 1993 and 2005 (Amendments), which modified the Industrial and Provident Societies Acts 1965 to 2002. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the financial statements. In addition we report to you if, in our opinion, the Society has not kept proper accounting records or, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent mis-statements 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 judgements 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 mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the EU as applied in accordance with the provisions of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 1993 and 2005 (Amendments), which apply the provisions of Part VII of the Companies Act 1985, of the state of the Society's affairs as at 10 January 2009 and of its loss for the 52 week period then ended;
- the financial statements have been properly prepared in accordance with the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 1993 and 2005 (Amendments), which modified the Industrial and Provident Societies Acts 1965 to 2002; and
- the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
Manchester  
2 April 2009

# Income statement

For the year ended 10 January 2009

All amounts are stated in £m unless otherwise indicated

	Notes	<b>Before significant items 2008</b>	<b>Significant items 2008</b>	<b>After significant items 2008</b>	Before significant items 2007	Significant items 2007	After significant items 2007
<b>Income</b>							
Gross earned premiums		<b>401.3</b>	–	<b>401.3</b>	436.6	–	436.6
Less premiums ceded to reinsurers		<b>(18.5)</b>	–	<b>(18.5)</b>	(17.1)	–	(17.1)
<b>Net earned premiums</b>	2	<b>382.8</b>	–	<b>382.8</b>	419.5	–	419.5
Fee and commission income	3	<b>1.5</b>	–	<b>1.5</b>	0.4	–	0.4
Investment income	4	<b>52.6</b>	–	<b>52.6</b>	61.4	–	61.4
Gains less losses arising from financial and other assets	5	<b>5.6</b>	–	<b>5.6</b>	(1.4)	–	(1.4)
Other operating income	6	<b>0.3</b>	–	<b>0.3</b>	0.1	–	0.1
<b>Net income</b>		<b>442.8</b>	–	<b>442.8</b>	480.0	–	480.0
<b>Benefits, losses and expenses</b>							
Claims paid and benefits		<b>(366.3)</b>	–	<b>(366.3)</b>	(421.7)	–	(421.7)
Less amounts receivable from reinsurers		<b>4.5</b>	–	<b>4.5</b>	5.6	–	5.6
<b>Net policyholder claims paid and benefits</b>	7	<b>(361.8)</b>	–	<b>(361.8)</b>	(416.1)	–	(416.1)
Change in insurance contract liabilities	21	<b>90.2</b>	–	<b>90.2</b>	141.8	–	141.8
Change in reinsurance assets	21	<b>6.6</b>	–	<b>6.6</b>	4.6	–	4.6
<b>Net policyholder claims and benefits incurred</b>		<b>(265.0)</b>	–	<b>(265.0)</b>	(269.7)	–	(269.7)
Fees and commissions	8	<b>(10.2)</b>	–	<b>(10.2)</b>	(12.5)	–	(12.5)
Operating expenses	9	<b>(128.3)</b>	<b>(30.9)</b>	<b>(159.2)</b>	(127.3)	(29.5)	(156.8)
Finance costs		<b>(7.3)</b>	–	<b>(7.3)</b>	(6.2)	–	(6.2)
<b>Operating profit before impairment losses</b>		<b>32.0</b>	<b>(30.9)</b>	<b>1.1</b>	64.3	(29.5)	34.8
Impairment losses on investments	10	<b>(26.0)</b>	–	<b>(26.0)</b>	–	–	–
<b>Operating (loss)/profit</b>		<b>6.0</b>	<b>(30.9)</b>	<b>(24.9)</b>	64.3	(29.5)	34.8
Profit based payments to individual members of the Co-operative Group		<b>(1.9)</b>	–	<b>(1.9)</b>	(0.7)	–	(0.7)
<b>(Loss)/profit before income tax</b>		<b>4.1</b>	<b>(30.9)</b>	<b>(26.8)</b>	63.6	(29.5)	34.1
Income tax	11	<b>(1.2)</b>	<b>8.8</b>	<b>7.6</b>	(18.8)	8.9	(9.9)
<b>(Loss)/profit for the financial year</b>		<b>2.9</b>	<b>(22.1)</b>	<b>(19.2)</b>	44.8	(20.6)	24.2

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

2008 and 2007 Significant items relate to non-recurring expenditure associated with a CFS Group programme of restructuring.

## Balance sheet

At 10 January 2009

All amounts are stated in £m unless otherwise indicated

		2008	2007
	Notes		
<b>Assets</b>			
Deferred acquisition cost	12	28.6	28.5
Reinsurance assets	21	19.3	12.0
Financial investments at fair value through profit or loss	13	358.1	115.9
Available for sale financial assets	14	662.0	1,076.0
Loans at amortised cost	15	0.6	–
Insurance receivables and other assets	16	185.6	206.5
Current tax assets	25	22.5	–
<b>Total assets</b>		<b>1,276.7</b>	1,438.9
<b>Capital and reserves attributable to the equity holders</b>			
Share capital	18	183.0	183.0
Retained earnings	19	(19.8)	(0.6)
Other reserves	19	79.6	117.3
<b>Total equity</b>		<b>242.8</b>	299.7
<b>Liabilities</b>			
Other borrowed funds	20	105.0	105.0
Insurance contract liabilities	21	861.8	959.8
Deferred tax liabilities	25	3.9	2.7
Current tax liabilities	25	–	11.8
Other provisions	22	–	1.0
Insurance and other payables	23	50.6	41.3
Other reinsurance liabilities	24	5.5	4.5
Cash and cash equivalents	17	7.1	13.1
<b>Total liabilities</b>		<b>1,033.9</b>	1,139.2
<b>Total equity and liabilities</b>		<b>1,276.7</b>	1,438.9

Approved by the Board on 2 April 2009 and signed on its behalf by:

*Simon Butler, Chair*

*David Anderson, Chief Executive*

*Moirá Lees, Secretary*

## Statement of recognised income and expense

For the year ended 10 January 2009

All amounts are stated in £m unless otherwise indicated

	Notes	2008	2007
Valuation (losses)/gains on available for sale investments taken to equity	19	<b>(28.4)</b>	15.2
Movements on available for sale investments transferred to profit or loss		<b>16.7</b>	(1.4)
Tax on movements recognised directly in equity		<b>3.3</b>	(4.2)
<b>Net income and expense recognised directly in equity</b>		<b>(8.4)</b>	9.6
(Loss)/profit for the financial year		<b>(19.2)</b>	24.2
<b>Total recognised income and expense for the financial year</b>		<b>(27.6)</b>	33.8

The total recognised income and expense is attributable to the equity shareholder.

## Cash flow statement

For the year ended 10 January 2009

All amounts are stated in £m unless otherwise indicated

	<b>2008</b>	2007
<b>Cash flows from operating activities</b>		
(Loss)/profit before income tax	<b>(26.8)</b>	34.1
Adjustments for:		
Interest payable	<b>7.3</b>	6.2
Amortisation of investments	<b>4.3</b>	6.3
Decrease in available for sale financial assets	<b>398.0</b>	95.6
Increase in financial investments at fair value through profit or loss	<b>(242.2)</b>	(16.1)
Increase in loans at amortised cost	<b>(0.6)</b>	–
Increase in deferred acquisition costs	<b>(0.1)</b>	(2.5)
Increase in reinsurance assets	<b>(7.3)</b>	(4.4)
Decrease in insurance receivables and other assets	<b>20.9</b>	16.7
Decrease in insurance contract liabilities	<b>(98.0)</b>	(175.3)
Decrease in other provisions	<b>(1.0)</b>	(3.0)
Increase in insurance and other liabilities	<b>9.3</b>	15.9
Increase/(decrease) in other reinsurance liabilities	<b>1.0</b>	(2.9)
Income tax (paid)/recovered	<b>(10.5)</b>	6.0
<b>Net cash flows from operating activities</b>	<b>54.3</b>	(23.4)
<b>Net cash flows from investing activities</b>	–	–
<b>Cash flows from financing activities</b>		
Proceeds on issue of subordinated loan	–	30.0
Dividends paid	<b>(41.0)</b>	–
Interest paid	<b>(7.3)</b>	(6.2)
<b>Net cash flows from financing activities</b>	<b>(48.3)</b>	23.8
<b>Net increase in cash and cash equivalents</b>	<b>6.0</b>	0.4
Cash and cash equivalents at the beginning of the financial year	<b>(13.1)</b>	(13.5)
<b>Cash and cash equivalents at the end of the financial year</b>	<b>(7.1)</b>	(13.1)

### 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 cashflows includes interest income of £52.6m (2007: £61.4m).

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

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 2 April 2009. The insurance specific accounting policies are set out on pages 19 and 20.

### Statement of compliance

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 1993 and 2005 (Amendments), which modified the Industrial and Provident Societies Acts 1965 to 2002. The Regulations require CISGIL to prepare its financial statements substantially as though it were a company registered under the Companies Act 1985 (the Act), and they apply, with certain exemptions, the provisions of Part VII 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 Review on pages 2 and 3. In addition the risk management section of the Accounts 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 the 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 the Financial Statements.

The financial information has been prepared on the basis of recognition and measurement requirements of IFRS in issue that are endorsed by the EU and effective at 10 January 2009.

The financial statements are prepared on the historical cost basis except that the following assets are stated at their fair value: investments valued at fair value through profit or loss and investments designated as available for sale.

In preparing these financial statements, CISGIL has adopted the amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*. The amendment to IAS 39 and IFRS 7 impacted the performance, position and disclosures made within these financial statements.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### Standards and interpretations issued but not yet effective

CISGIL has not adopted the following standards:

- IFRS 8 *Operating Segments*

This standard introduces the 'management approach' to segment reporting. IFRS 8 will require disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.

The amendments are effective for accounting periods beginning on or after 1 January 2009.

- Amendments to IAS 1 *Presentation of Financial Statements*

This standard proposes a revised presentation to the income statement and revised changes to the naming of some primary statements. The amendments introduce a comprehensive statement of income that will present non-owner changes in equity in either a single statement of comprehensive income or a separate statement of income and other comprehensive income, initiated with the profit for the period.

The amendments are effective for accounting periods beginning on or after 1 January 2009.

- Further amendments to IFRS 7 *Improving Disclosures about Financial Instruments*

This standard enhances current financial instruments disclosures both for fair value measurement and liquidity risk. The amendments introduce increasing

## Basis of preparation and significant accounting policies

For the year ended 10 January 2009

disclosure requirements in relation to fair value measurement particularly when markets are inactive and enhancements to the information provided in relation to the nature and extent of liquidity risk.

Although CISGIL is not yet required to comply with the IFRS 7 amendments, CISGIL has adopted certain amendments to the disclosures reported in the financial statements.

The amendments are effective for accounting periods beginning on or after 1 January 2009.

- Revised IFRS 3 *Business Combinations (2008)*

This standard incorporates the following changes:

- the definition of a business has been broadened, which may result in more acquisitions being treated as business combinations;
- contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss;
- transaction costs, other than share and debt issue costs, will be expensed as incurred;
- any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss; and
- any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

Revised IFRS 3 is effective prospectively for annual accounting periods beginning on or after 1 July 2010.

- Amended IAS 27 *Consolidated and Separate Financial Statements (2008)*

This standard requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss.

The amendment is effective for accounting periods beginning on 1 July 2009.

- IFRIC 13 *Customer Loyalty Programmes*

This interpretation addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services.

IFRIC 13 is effective for accounting periods beginning on or after 1 July 2008.

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. CISGIL is currently in the process of evaluating the potential effect of the IFRIC 13 interpretation.

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

- amendment to IFRS 2 *Share-based Payment – Vesting conditions and Cancellations*;
- revised IAS 23 *Borrowing Costs*;
- amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*;
- IFRIC 15 *Agreements for the Construction of Real Estate*;
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*;
- IFRIC 17 *Distribution of non-cash Assets to Owners*; and
- IFRIC 18 *Transfer of Assets from customers*.

### 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 are effective retrospectively from 1 July 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.

### Accounting date

The financial statements relate to 52 weeks to 10 January 2009. As the financial year is virtually coterminous with the calendar year 2008, figures in respect of the financial year are headed 2008 and the corresponding amounts for the 52 weeks to 12 January 2008 are headed 2007.

**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.

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.

**(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 within 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 and 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). Under these 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 equity 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 equity 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

## Basis of preparation and significant accounting policies

For the year ended 10 January 2009

where a transfer of substantially all the risks and rewards and/or control of the financial asset has occurred.

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 and at the current market rate for available for sale assets).

The written down value of the impaired financial asset is compounded back to the net realisable balance over time using the original effective interest rate. This is reported through investment income within the income statement 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 equity 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 cash flow statement.

### **(e) Impairment of non-financial assets**

The carrying values of CISGIL's 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 equity (in which case it is recognised in equity).

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.

### **(g) Employee benefits – pension obligations**

#### *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). 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 recognized 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.

*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 is 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.

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 pro-rata 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.

## Basis of preparation and significant accounting policies

For the year ended 10 January 2009

### 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 and is determined after taking account of future investment income. 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 where the underlying transaction is a CISGIL product. The recharge is recognised on an accruals basis calculated as the amount due to members for relevant transactions in the financial year.

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 CISGIL 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 & Savings business), CIS General Insurance Limited, and The Co-operative Bank p.l.c. 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.

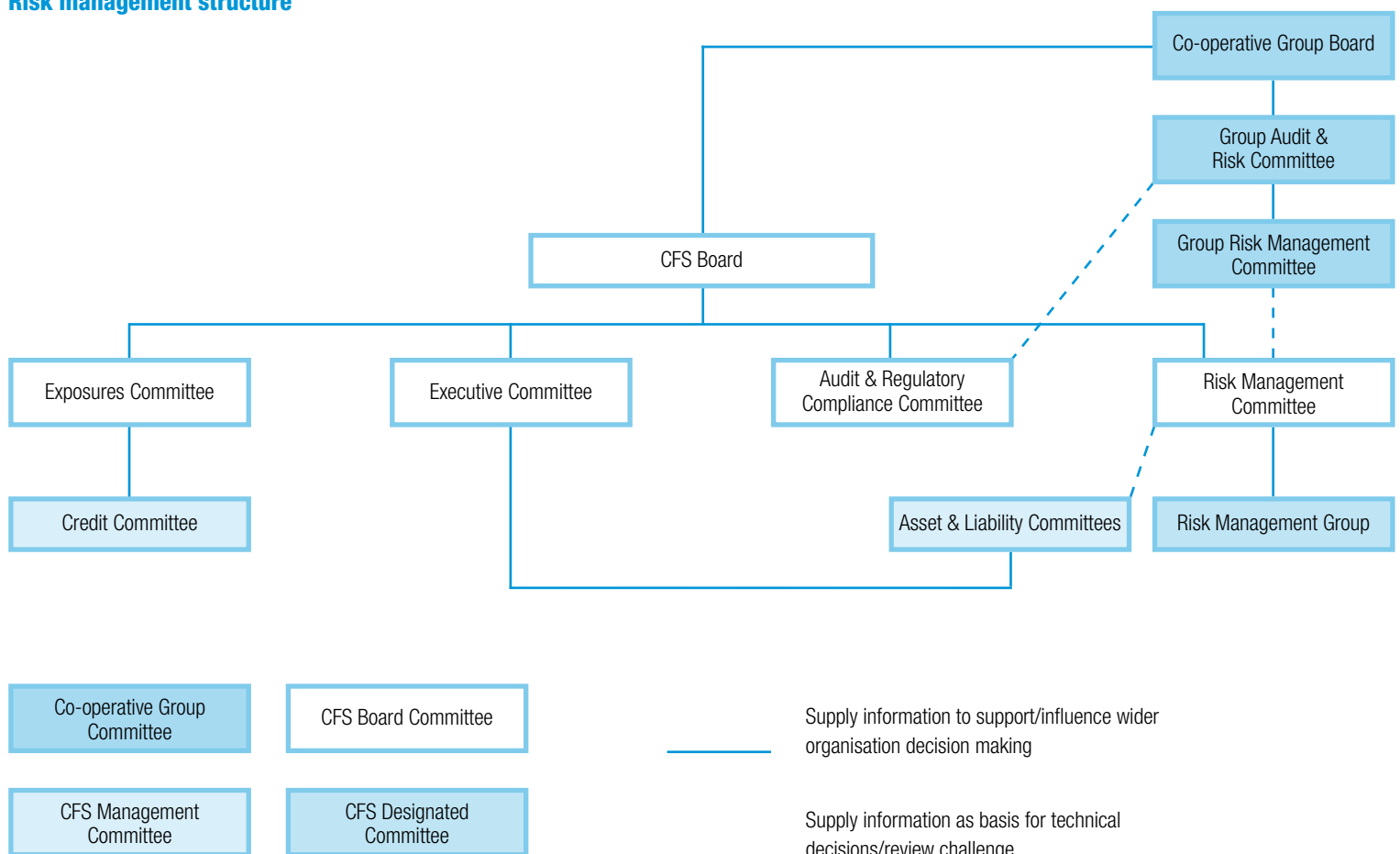
The CFS Board has ultimate responsibility for the management of all risks across CFS.

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

For the year ended 10 January 2009

All amounts are stated in £m unless otherwise indicated

### 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;
- 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; and
- review and discussion of technical risk issues identified as a result of internal audit work.

**CFS Audit & Regulatory Compliance Committee (ARCC):** this committee provides independent oversight in relation to financial reporting; internal control and risk management; regulatory compliance; and 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 & Liability Committees (ALCO):** these committees are management committees of the Board which are chaired by the Chief Executive. They are primarily responsible for overseeing the management of interest rate, market, liquidity and funding risks and to advise on capital utilisation, in addition to, 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 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 Credit Committee:** this committee is chaired by the Director of Banking Risk and Capital Management. The Chair has delegated authority for approving credit facilities within approved strategies and delegated authorities.

**CFS Operational Risk Committee:** this committee interfaces with both the Executive Committee and ARCC and is chaired by the Head of 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 supporting risk and capital management, and implementing changes in business strategy, optimising performance, adherence to and setting of policy, and development of management information and training.

### Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount and timing of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The principal risk that CISGIL faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amounts of claims and benefits will vary from year to year from the estimates established.

**Insurance risk (continued)****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 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' 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.

**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 and surplus 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 appropriate 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.

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

## Risk management

For the year ended 10 January 2009

All amounts are stated in £m unless otherwise indicated

### Insurance risk (continued)

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 claims handling function has recently undergone significant change in terms of the service proposition and the claims processes, which were expected to lead to an acceleration of claim processes, specifically the recognition of liabilities in case reserves. At this year-end the extent of this acceleration remains uncertain, leading to greater than usual uncertainty around the future development of claim costs. 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 or exchange rates to the extent that there is a mismatch between assets and liabilities. CISGIL normally matches the insurance liabilities arising under its short term 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:

	2008	2007
Net insurance liabilities	<b>2.30 years</b>	2.70 years
Financial assets	<b>1.42 years</b>	2.45 years

Shortly before the balance sheet date CISGIL sold a substantial holding of fixed interest securities, resulting in a higher than usual level of cash investment and a lower than normal average duration for its assets. This position is expected to be maintained for only a few weeks as the cash will be quickly reinvested in appropriate fixed interest securities.

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.

#### 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

**Financial risk (continued)**

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 25 basis points in interest yields would reduce the carrying value of CISGIL's assets at the end of the financial year by £3.0m (2007: £5.8m). 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 equity as a reduction of £2.2m net of tax (2007: £4.0m). Conversely the impact of a decrease of 25 basis points in interest yields would be recognised directly in equity as an increase of £2.2m net of tax (2007: £4.0m).

CISGIL has issued £105m of subordinated debt at varying margins above 3 month LIBOR. The effect on profit of a 1% movement in 3 month LIBOR would be £1.05m per annum.

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 exposure arises in connection with 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.

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 provides an analysis at the balance sheet date of the credit rating of those assets subject to credit risk.

	AAA	AA	A	BBB	Not rated	Total
<b>As at 10 January 2009</b>						
Financial investments – 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
	<b>109.5</b>	<b>581.5</b>	<b>254.7</b>	<b>108.4</b>	<b>171.5</b>	<b>1,225.6</b>

\*Includes £5.6m of gilt edged securities

	AAA	AA	A	BBB	Not rated	Total
<b>As at 12 January 2008</b>						
Financial investments – at fair value through profit or loss:						
Deposits with approved credit institutions (fixed rate)	–	115.9	–	–	–	115.9
Available for sale financial assets:						
Listed debt (fixed rate)*	325.8	302.2	369.2	73.9	–	1,071.1
Unlisted debt (fixed rate)	–	–	4.9	–	–	4.9
Reinsurance assets	2.1	3.7	2.3	–	3.9	12.0
Insurance receivables and other assets	7.6	7.3	12.8	2.3	176.5	206.5
	<b>335.5</b>	<b>429.1</b>	<b>389.2</b>	<b>76.2</b>	<b>180.4</b>	<b>1,410.4</b>

\*Includes £116.1m of gilt edged securities.

## Risk management

For the year ended 10 January 2009

All amounts are stated in £m unless otherwise indicated

### Financial risk (continued)

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 £348.1m (2007: £115.9m) reported within deposits with approved credit institutions, which are fully collateralised.

CISGIL makes provisions for the possible impairment of financial assets where there is objective evidence that an impairment loss has been incurred. The maximum exposure to credit risk is represented by the carrying value of each financial and reinsurance balance in the balance sheet.

### 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. The minimum financial assets proportion is determined using CISGIL's internal economic capital assessment, the estimated extreme case net outflows and regularly reviewing the nature, cause, effect and probability of extreme case scenarios in the light of changing natural, social and economic conditions.

CISGIL has access to overnight borrowing facilities with the Co-operative Bank p.l.c. 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).

	Carrying value	Gross nominal outflow	Up to 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	More than 5 years
<b>As at 10 January 2009</b>								
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	–	–	–	–	–
	<b>1,022.4</b>	<b>1,044.2</b>	<b>553.4</b>	<b>151.6</b>	<b>90.1</b>	<b>87.9</b>	<b>34.2</b>	<b>127.0</b>
Other liabilities	11.5							
Total recognised liabilities	<b>1,033.9</b>							

	Carrying value	Gross nominal outflow	Up to 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	More than 5 years
<b>As at 12 January 2008</b>								
Insurance contract liabilities	959.8	959.8	503.1	172.2	111.7	69.8	44.9	58.1
Financial liabilities at amortised cost:								
Subordinated debt	105.0	159.4	7.8	7.8	7.8	7.8	36.8	91.4
Insurance and other payables	33.2	33.2	33.2	–	–	–	–	–
Other reinsurance liabilities	4.5	4.5	4.5	–	–	–	–	–
Cash and cash equivalents	13.1	13.1	13.1	–	–	–	–	–
	<b>1,115.6</b>	<b>1,170.0</b>	<b>561.7</b>	<b>180.0</b>	<b>119.5</b>	<b>77.6</b>	<b>81.7</b>	<b>149.5</b>
Other liabilities	23.6							
Total recognised liabilities	<b>1,139.2</b>							

## Operational risk

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.

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 contingency planning. Operational risks are formally reviewed on a regular basis. 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.

2008 has seen continued refinement and embedding of the framework including development of a draft operational risk appetite statement, and reporting enhancements. The framework is subject to regular Internal Audit review in line with CFS' rolling risk-based audit plan.

## Responsibilities

Whilst the Board is ultimately responsible for operational risks across CISGIL and the wider CFS organisation, this is delegated to the Chief Executive and Executive Directors within CFS who are responsible for controlling the operational risks in their direct areas of accountability and for compliance with CFS policies.

Each Executive has a nominated Divisional Risk Co-ordinator who is a member of the Operational Risk Committee and is responsible for ensuring the consistent application of the operational risk framework within their division. Divisional Risk Co-ordinators are supported from within their business division.

The central operational risk team facilitate the consistent identification, management and reporting of operational risks across CFS in line with regulatory and business requirements; support development and testing of business continuity arrangements for the business; and manage the CFS corporate insurance programme.

## Risk themes

CFS categorises operational risk into a number of distinct themes for internal management, monitoring and reporting. Key operational risk themes managed by CFS include:

### Financial crime

This relates to the effectiveness of controls to minimise financial losses arising from the fraudulent activities of employees, customers and third parties. Specific risks arise from external fraud, including but not limited to computer fraud (computer viruses, key logging tools, Trojan attacks, phishing), anti money laundering (including but not limited to failure to comply with FSA money laundering regulations and to prevent organised crime) and internal fraud.

### Data security and confidentiality

CFS has introduced a new theme during 2008 in respect of the potential loss or theft of confidential customer information. This enables the organisation to manage and monitor exposures in this area as a specific theme, recognising the increasing concerns of customers, regulatory authorities and the media in this area, as well as reflecting CFS' risk management culture.

### Compliance (with regulatory and legal requirements)

As a regulated business, CFS places great emphasis on maintaining compliance with our regulatory and legal obligations by:

- regulatory – supporting CFS's business objectives through the provision of advice, and the recommendation of solutions where appropriate, in respect of the regulatory implications of business developments, and assisting the business in assessing and addressing new and enhanced regulatory expectations. This is supported by appropriate and effective monitoring, aimed at influencing the business to mitigate or eliminate regulatory risk and demonstrate that we are meeting our regulatory obligations; and
- legal – seeking to pro-actively manage legal issues in relation to commercial, contractual, employment and litigation activities.

### Employee practices/workplace safety

It is acknowledged that our people are a key asset. The financial services sector as an industry is reliant on its people and the skills, knowledge and experience that they provide. The risk of failure to maintain employee relations, or provide a safe environment in line with legislative requirements and with the ethical, diversity and discrimination rules is managed with support from our Human Resources division.

### Property & facilities

The risk of unforeseen operational disruption caused through the denial of access to major occupancies or other interruptions to business operations is managed through our business continuity framework and corporate insurance programme.

### Customer service

As a financial services business, providing fair and high-quality customer service is a must. Controls that could prevent such risks occurring are regularly assessed and monitored. These include customer service levels, getting things right first time, availability of customer facing systems, together with trained and skilled resource to service customer demand.

## Risk management

For the year ended 10 January 2009

All amounts are stated in £m unless otherwise indicated

### Operational risk (continued)

#### Supplier

CFS looks to source cost-effective and quality services, both internal and external to the Co-operative Group. Given the reliance on our business partners who provide services and products, a major or prolonged disruption to the supply of their services and products would impact on CFS. Risks are monitored relating to the effectiveness of contracts and relationship management to ensure that CFS' expected performance levels are achieved.

#### Major IT systems/major payments systems failure

Financial service providers have a heavy reliance on the availability and performance of underlying systems and applications, and the processes and frameworks which underpin these. Consequently the effectiveness of controls over the IT systems and infrastructure supporting IT processes and controls, major payment systems and clearing and business processes are monitored on a regular basis.

#### Change management

CFS continues to invest in major change programmes in our journey to become the UK's most admired financial services business, through developing and improving our products, systems and processes.

To manage delivery of these change programmes, manage risks, prioritise resources and realise benefits CFS has developed and implemented a Change Management Framework. This is regularly reviewed to maintain its effectiveness.

### Principal risks

In addition to the significant risks covered above, the following risks are also reported in the CFS Risk Management Framework:

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

**Pensions risk:** the risk of the firm being unable to meet Pension Fund commitments.

Pensions 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.

**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.

**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 now and in the future to support all the risks in the business to the internally agreed level of confidence, thus ensuring policyholder protection; and
- subject to the above objectives being met, the company aims to generate an agreed level of return on capital employed (being allocated risk based equity plus subordinated debt).

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 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 Actuarial Risk and Capital Management 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 GENPRU 2.1, CISGIL must hold capital 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 or claims).

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

	<b>2008</b>	2007
Capital and reserves per the accounts	<b>242.8</b>	299.7
Subordinated debt	<b>105.0</b>	105.0
Inadmissible assets	<b>(14.2)</b>	(15.9)
Statutory claims equalisation reserve	<b>(17.2)</b>	(13.3)
Proposed dividend	–	(41.0)
Regulatory capital	<b>316.4</b>	334.5

## Critical judgements and fair value methodology

### Critical judgement

CISGIL makes estimates and assumptions that affect the reported amounts of assets and liabilities within the following financial year. Estimates and judgements 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 page 17 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.

<b>Balance sheet categories</b>	<b>Designated at fair value</b>	<b>Loans and receivables</b>	<b>Available for sale</b>	<b>Other amortised cost</b>	<b>Total</b>
<b>2008</b>					
<b>Assets</b>					
Financial investments at fair value through profit or loss	<b>358.1</b>	–	–	–	<b>358.1</b>
Available for sale financial assets	–	–	<b>662.0</b>	–	<b>662.0</b>
Loan at amortised cost	–	–	–	<b>0.6</b>	<b>0.6</b>
Other assets	–	<b>133.0</b>	–	–	<b>133.0</b>
<b>Total financial assets</b>	<b>358.1</b>	<b>133.0</b>	<b>662.0</b>	<b>0.6</b>	<b>1,153.7</b>
Non financial assets					<b>123.0</b>
<b>Total assets</b>					<b>1,276.7</b>
<b>Liabilities</b>					
Other borrowed funds	–	–	–	<b>105.0</b>	<b>105.0</b>
Overdrafts	–	–	–	<b>7.1</b>	<b>7.1</b>
Other liabilities	–	–	–	<b>50.6</b>	<b>50.6</b>
<b>Total financial liabilities</b>	–	–	–	<b>162.7</b>	<b>162.7</b>
Non financial liabilities					<b>871.2</b>
<b>Total liabilities</b>					<b>1,033.9</b>
Capital and reserves					<b>242.8</b>
<b>Total liabilities and equity</b>					<b>1,276.7</b>
<b>2007</b>					
<b>Assets</b>					
Financial investments at fair value through profit or loss	115.9	–	–	–	115.9
Available for sale financial assets	–	–	1,076.0	–	1,076.0
Loan at amortised cost	–	–	–	–	–
Other assets	–	153.0	–	–	153.0
<b>Total financial assets</b>	<b>115.9</b>	<b>153.0</b>	<b>1,076.0</b>	–	<b>1,344.9</b>
Non financial assets					94.0
<b>Total assets</b>					<b>1,438.9</b>
<b>Liabilities</b>					
Other borrowed funds	–	–	–	105.0	105.0
Overdrafts	–	–	–	13.1	13.1
Other liabilities	–	–	–	41.3	41.3
<b>Total financial liabilities</b>	–	–	–	<b>159.4</b>	<b>159.4</b>
Non financial liabilities					979.8
<b>Total liabilities</b>					<b>1,139.2</b>
Capital and reserves					299.7
<b>Total liabilities and equity</b>					<b>1,438.9</b>



## Critical judgements and fair value methodology

<b>2007</b>	<b>Quoted market prices in active markets</b>	<b>Valuation techniques using observable inputs</b>	<b>Valuation techniques using significant unobservable inputs</b>	<b>Total</b>
<b>Assets</b>				
Financial investments at fair value through profit or loss	115.9	–	–	115.9
Available for sale financial assets	1,057.1	18.9	–	1,076.0
<b>Total financial assets at fair value</b>	<b>1,173.0</b>	<b>18.9</b>	<b>–</b>	<b>1,191.9</b>

The valuation techniques using observable inputs primarily relate to listed 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.

### *Investments in debt securities*

The following table illustrates the impact on profit or loss of debt securities (other than those classified as at fair value through profit or loss) if they had have been classified as fair value through profit or loss and accounted for at amortised cost.

	<b>2008</b>
If all investments in debt instruments had been:	
Classified as financial assets at fair value through profit or loss	(11.7)
Accounted for at amortised cost	–

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).

	<b>Carrying amount 2008</b>	<b>Fair value 2008</b>	<b>Amortised cost 2008</b>
Investments in debt securities as:			
Available for sale financial assets	662.0	662.0	692.6
Loans and receivables at amortised cost	0.6	0.6	15.5

## 1. Segmental analysis

Segmental information is presented in respect of CISGIL's business segments in line with CISGIL's management and internal reporting structure.

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. Unallocated items comprise mainly deferred tax.

### 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 10 January 2009

	Before significant items			Total	Significant items	Total after significant items
	Motor	Home	Other			
<b>Income</b>						
Gross earned premiums	231.1	141.2	29.0	401.3	–	401.3
Less premiums ceded to reinsurers	(3.6)	(8.9)	(6.0)	(18.5)	–	(18.5)
<b>Net earned premiums</b>	<b>227.5</b>	<b>132.3</b>	<b>23.0</b>	<b>382.8</b>	<b>–</b>	<b>382.8</b>
Fee and commission income	0.2	–	1.3	1.5	–	1.5
Investment income	41.5	7.1	4.0	52.6	–	52.6
Gains less losses arising from financial and other assets	4.4	0.8	0.4	5.6	–	5.6
Other operating income	0.3	–	–	0.3	–	0.3
<b>Net income</b>	<b>273.9</b>	<b>140.2</b>	<b>28.7</b>	<b>442.8</b>	<b>–</b>	<b>442.8</b>
<b>Benefits, losses and expenses</b>						
Claims paid and benefits	(253.5)	(88.0)	(24.8)	(366.3)	–	(366.3)
Less amounts receivable from reinsurers	–	2.1	2.4	4.5	–	4.5
<b>Net policyholder claims paid and benefits</b>	<b>(253.5)</b>	<b>(85.9)</b>	<b>(22.4)</b>	<b>(361.8)</b>	<b>–</b>	<b>(361.8)</b>
Change in insurance contract liabilities	82.6	(0.1)	7.7	90.2	–	90.2
Change in reinsurance assets	6.1	1.4	(0.9)	6.6	–	6.6
<b>Net policyholder claims and benefits incurred</b>	<b>(164.8)</b>	<b>(84.6)</b>	<b>(15.6)</b>	<b>(265.0)</b>	<b>–</b>	<b>(265.0)</b>
Fees and commissions	(6.2)	(3.3)	(0.7)	(10.2)	–	(10.2)
Operating expenses	(66.9)	(53.3)	(8.1)	(128.3)	(30.9)	(159.2)
Finance costs	(5.7)	(1.0)	(0.6)	(7.3)	–	(7.3)
<b>Operating profit before impairment loss</b>	<b>30.3</b>	<b>(2.0)</b>	<b>3.7</b>	<b>32.0</b>	<b>(30.9)</b>	<b>1.1</b>
Impairment losses on investments	(20.5)	(3.5)	(2.0)	(26.0)	–	(26.0)
<b>Operating loss</b>	<b>9.8</b>	<b>(5.5)</b>	<b>1.7</b>	<b>6.0</b>	<b>(30.9)</b>	<b>(24.9)</b>
Profit based payments to individual members of the Co-operative Group				(1.9)	–	(1.9)
<b>Loss before income tax</b>				<b>4.1</b>	<b>(30.9)</b>	<b>(26.8)</b>
Income tax				7.6	–	7.6
<b>Loss for the financial year</b>				<b>11.7</b>	<b>(30.9)</b>	<b>(19.2)</b>

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

# Notes to the financial statements

All amounts are stated in £m unless otherwise indicated

## 1. Segmental analysis (continued)

### Segment income statement for year ended 12 January 2008

	Before significant items			Total	Significant items	Total after significant items
	Motor	Home	Other			
<b>Income</b>						
Gross earned premiums	256.7	149.6	30.3	436.6	–	436.6
Less premiums ceded to reinsurers	(4.9)	(9.2)	(3.0)	(17.1)	–	(17.1)
<b>Net earned premiums</b>	<b>251.8</b>	<b>140.4</b>	<b>27.3</b>	<b>419.5</b>	<b>–</b>	<b>419.5</b>
Fee and commission income	–	–	0.4	0.4	–	0.4
Investment income	48.1	8.2	5.1	61.4	–	61.4
Gains less losses arising from financial and other assets	(1.1)	(0.2)	(0.1)	(1.4)	–	(1.4)
Other operating income	0.1	–	–	0.1	–	0.1
<b>Net income</b>	<b>298.9</b>	<b>148.4</b>	<b>32.7</b>	<b>480.0</b>	<b>–</b>	<b>480.0</b>
<b>Benefits, losses and expenses</b>						
Claims paid and benefits	(283.0)	(108.4)	(30.3)	(421.7)	–	(421.7)
Less amounts receivable from reinsurers	1.2	1.8	2.6	5.6	–	5.6
<b>Net policyholder claims paid and benefits</b>	<b>(281.8)</b>	<b>(106.6)</b>	<b>(27.7)</b>	<b>(416.1)</b>	<b>–</b>	<b>(416.1)</b>
Change in insurance contract liabilities	127.7	(4.0)	18.1	141.8	–	141.8
Change in reinsurance assets	4.6	1.5	(1.5)	4.6	–	4.6
<b>Net policyholder claims and benefits incurred</b>	<b>(149.5)</b>	<b>(109.1)</b>	<b>(11.1)</b>	<b>(269.7)</b>	<b>–</b>	<b>(269.7)</b>
Fees and commissions	(7.0)	(4.2)	(1.3)	(12.5)	–	(12.5)
Operating expenses	(64.9)	(55.5)	(6.9)	(127.3)	(29.5)	(156.8)
Finance costs	(4.8)	(0.8)	(0.6)	(6.2)	–	(6.2)
<b>Operating profit</b>	<b>72.7</b>	<b>(21.2)</b>	<b>12.8</b>	<b>64.3</b>	<b>(29.5)</b>	<b>34.8</b>
Profit based payments to individual members of the Co-operative Group				(0.7)	–	(0.7)
<b>Profit before income tax</b>				<b>63.6</b>	<b>(29.5)</b>	<b>34.1</b>
Income tax				(18.8)	8.9	(9.9)
<b>Profit for the financial year</b>				<b>44.8</b>	<b>(20.6)</b>	<b>24.2</b>

2007 significant items relate to non-recurring expenditure associated with a CFS Group programme of restructuring.

### Segment balance sheet as at 10 January 2009

	Motor	Home	Other	Unallocated balances	Total
<b>Assets</b>					
Deferred acquisition costs	15.6	11.4	1.6	–	28.6
Reinsurance assets	12.3	5.5	1.5	–	19.3
Financial assets at fair value through profit or loss	355.7	1.6	0.8	–	358.1
Available for sale financial assets	505.4	104.1	52.5	–	662.0
Loans at amortised cost	0.5	0.1	–	–	0.6
Other assets	138.6	11.8	23.4	34.3	208.1
<b>Total assets</b>	<b>1,028.1</b>	<b>134.5</b>	<b>79.8</b>	<b>34.3</b>	<b>1,276.7</b>
<b>Liabilities</b>					
Insurance contract liabilities	658.0	135.4	68.4	–	861.8
Other liabilities	1.7	1.6	0.2	168.6	172.1
<b>Total liabilities</b>	<b>659.7</b>	<b>137.0</b>	<b>68.6</b>	<b>168.6</b>	<b>1,033.9</b>

## 1. Segmental analysis (continued)

### Segment balance sheet as at 12 January 2008

	Motor	Home	Other	Unallocated balances	Total
<b>Assets</b>					
Deferred acquisition costs	15.5	11.6	1.4	–	28.5
Reinsurance assets	6.1	4.2	1.7	–	12.0
Financial assets at fair value through profit or loss	92.1	15.5	8.3	–	115.9
Available for sale financial assets	855.0	143.5	77.5	–	1,076.0
Other assets	141.6	46.1	18.8	–	206.5
<b>Total assets</b>	<b>1,110.3</b>	<b>220.9</b>	<b>107.7</b>	<b>–</b>	<b>1,438.9</b>
<b>Liabilities</b>					
Insurance contract liabilities	751.3	136.9	71.6	–	959.8
Other liabilities	19.9	6.9	0.6	152.0	179.4
<b>Total liabilities</b>	<b>771.2</b>	<b>143.8</b>	<b>72.2</b>	<b>152.0</b>	<b>1,139.2</b>

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

## 2. Net earned premiums

	2008	2007
<b>Gross premiums</b>		
Premium written	<b>394.4</b>	412.8
Change in unearned premium provision	<b>6.9</b>	23.8
Gross earned premium	<b>401.3</b>	436.6
<b>Outwards reinsurance premiums</b>		
Premium ceded	<b>(19.2)</b>	(16.9)
Change in unearned premium provision	<b>0.7</b>	(0.2)
Premiums ceded to reinsurers	<b>(18.5)</b>	(17.1)
<b>Net earned premiums</b>	<b>382.8</b>	419.5

## 3. Fee and commission income

	2008	2007
Reinsurance commission earned	<b>1.5</b>	0.4

## 4. Investment income

	2008	2007
Interest and similar income from financial assets at fair value through profit or loss:		
Deposit with credit institutions	<b>3.8</b>	2.7
Interest income from available for sale financial assets:		
Listed debt securities	<b>48.4</b>	58.3
Unlisted debt securities	<b>0.4</b>	0.4
	<b>48.8</b>	58.7
	<b>52.6</b>	61.4

## Notes to the financial statements

All amounts are stated in £m unless otherwise indicated

### 5. Gains less losses arising from financial and other assets

	2008	2007
Net gains/(losses) arising on financial assets:		
Available for sale listed debt securities	<b>5.6</b>	(1.4)

### 6. Other operating income

Other operating income of £0.3m represents interest received from the Inland Revenue on overpayment of tax. In 2007, other operating income of £0.1m represented a volume rebate from external salvage and subrogation contracts.

### 7. Net policyholder claims paid and benefits

	2008	2007
<b>Gross claims paid</b>		
Current year claims	<b>153.2</b>	178.6
Prior year claims	<b>250.5</b>	282.7
Gross claims paid and benefits	<b>403.7</b>	461.3
<b>Salvage and subrogation</b>		
Current year claims	<b>(12.2)</b>	(12.1)
Prior year claims	<b>(25.2)</b>	(27.5)
Salvage and subrogation	<b>(37.4)</b>	(39.6)
Claims paid and benefits	<b>366.3</b>	421.7
<b>Less receiveable from reinsurers</b>		
Current year claims	<b>(4.2)</b>	(4.0)
Prior year claims	<b>(0.3)</b>	(1.6)
Amounts receivable from reinsurers	<b>(4.5)</b>	(5.6)
<b>Net claims paid and benefits</b>	<b>361.8</b>	416.1

### 8. Fees and commissions

	2008	2007
Commission	<b>11.0</b>	10.1
Change in deferred commission	<b>(0.8)</b>	2.4
	<b>10.2</b>	12.5

### 9. Operating expenses

	2008	2007
Administration expenses	<b>75.0</b>	82.3
Acquisition expenses	<b>53.3</b>	44.2
Non-recurring expenses	<b>30.9</b>	29.5
Rebates and discounts	<b>–</b>	0.8
	<b>159.2</b>	156.8

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.

## 9. Operating expenses (continued)

CISGIL does not have any employees, all sales are effected by staff of 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 to the company, at cost, by way of a management service charge from CFSMS.

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

	<b>2008</b>	2007
	<b>£'000</b>	£'000
Audit of these financial statements	<b>168</b>	124
Other services:		
Other services pursuant to legislation	<b>36</b>	41
Other services relating to taxation	<b>4</b>	–
Services relating to information technology	<b>113</b>	–
Services relating to litigation	<b>6</b>	–
Services relating to recruitment and remuneration	<b>2</b>	–
All other services	<b>61</b>	14
	<b>390</b>	179

## 10. Impairment losses on investments

	<b>2008</b>	2007
Impairment of loans at amortised cost (note 15)	<b>14.9</b>	–
Available for sale losses in equity impaired through profit or loss (note 19)	<b>11.1</b>	–
Total impairment losses on investment	<b>26.0</b>	–

Included within available for sale losses in equity impaired through profit or loss is £4.5m relating to an asset that was transferred from available for sale financial assets to loans at amortised cost (refer to note 14).

## 11. Income tax expense

	<b>2008</b>	2007
<b>Current tax</b>		
UK tax for the current year	<b>(8.9)</b>	8.6
UK tax adjustments in respect of prior years	<b>0.1</b>	(0.4)
Total current tax expense	<b>(8.8)</b>	8.2
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<b>1.3</b>	1.6
Adjustment in respect of prior years	<b>(0.1)</b>	0.1
Total deferred tax expense	<b>1.2</b>	1.7
Total tax expense recognised in the income statement	<b>(7.6)</b>	9.9

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

## 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:

	<b>2008</b>	2007
(Loss)/profit before tax	<b>(26.8)</b>	34.1
Tax calculated at domestic corporation tax rate of 28.5% (2007: 30%)	<b>(7.6)</b>	10.2
Effect of:		
Tax rate change on deferred tax	–	(0.2)
Other adjustments	–	(0.1)
Income tax expense	<b>(7.6)</b>	9.9

## Notes to the financial statements

All amounts are stated in £m unless otherwise indicated

### 11. Income tax expense (continued)

The tax expense included in the income statement is attributable to the shareholder. The rate of corporation tax applicable is 28.5% (2007: 30%).

### 12. Deferred acquisition cost

	2008	2007
At the beginning of the financial year	28.5	26.0
Deferred acquisition costs	63.6	59.2
Amortisation	(63.5)	(56.7)
At the end of the financial year	28.6	28.5

Deferred acquisition costs will be realised within one year.

### 13. Financial investments at fair value through profit or loss

	2008	2007
Deposits with credit institutions	358.1	115.9

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 (2007: £nil).

### 14. Available for sale financial assets

	2008	2007
Listed debt securities	657.1	1,071.1
Unlisted debt securities	4.9	4.9
	662.0	1,076.0

All debt securities in this category are fixed rate instruments, of which £5.6m (2007: £116.1m) are listed government bonds. Of the total, £139.1m (2007: £215.4m) 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 £9.5m (2007: £231.6m) on loan under approved stock lending arrangements. Eligible collateral totalling £10.0m (2007: £238.3m) was held as security.

Included within listed debt securities is an impaired asset with a carrying value of £3.4m and accumulated impairment losses of £6.6m that have been transferred from equity reserves 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 futures or until maturity and accordingly the debt security was reclassified.

As per the amendment to IAS39, 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 represents the amount that is expected to be recovered. The table below sets out the carrying value and fair values on the instrument:

	27 July 2008		10 January 2009	
	Carrying value	Fair value	Carrying value	Fair value
Available for sale financial assets transferred to loans and receivables	14.9	14.9	0.6	0.6

#### 14. Available for sale financial assets (continued)

The table below sets out the amounts actually recognised during the 2008 financial year in respect of the reclassified instrument:

	<b>Profit or loss</b>	<b>Profit or loss</b>	<b>Profit or loss</b>	<b>Equity</b>	<b>Equity</b>	<b>Equity</b>
	<b>Period before reclassification to 27 July 2008</b>	<b>Period after reclassification to 10 January 2009</b>	<b>52 weeks to 10 January 2009</b>	<b>Period before reclassification to 27 July 2008</b>	<b>Period after reclassification to 10 January 2009</b>	<b>52 weeks to 10 January 2009</b>
Interest income	0.2	–	<b>0.2</b>	–	0.6	<b>0.6</b>
Net impairment loss	–	(19.4)	<b>(19.4)</b>	–	4.5	<b>4.5</b>
Net change in fair value	–	–	<b>–</b>	(4.5)	–	<b>(4.5)</b>
	0.2	(19.4)	<b>(19.2)</b>	(4.5)	5.1	<b>0.6</b>

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:

	<b>Profit or loss</b>	<b>Equity</b>
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

	<b>2008</b>	2007
<b>Loans</b>		
Unlisted debt securities – floating rate	<b>15.5</b>	–
Impairment loss	<b>(14.9)</b>	–
	<b>0.6</b>	–

Loans at amortised cost reflect one available for sale debt security reclassified during the year. 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:

	<b>2008</b>	2007
At the beginning of the year	–	–
Charge against profits	<b>14.9</b>	–
At the end of the year	<b>14.9</b>	–

#### 16. Insurance receivables and other assets

	<b>2008</b>	2007
Receivables arising from insurance:		
Arising from insurance operations	<b>98.3</b>	122.2
Salvage and subrogation recoveries	<b>52.6</b>	53.5
Reinsurance operations	<b>1.4</b>	1.1
Other receivables:		
Accrued interest	<b>21.5</b>	29.7
Amounts receivable from group companies	<b>11.8</b>	–
	<b>185.6</b>	206.5

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

## Notes to the financial statements

All amounts are stated in £m unless otherwise indicated

### 16. Insurance receivables and other assets (continued)

Receivables arising from insurance operations are stated net of an impairment provision of £0.3m (2007: £nil). 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.

In addition, insurance receivables and other assets include amounts totalling £16.8m (2007: £17.6m) which are overdue but not considered to be impaired, age analysed as follows:

	<b>2008</b>	2007
Amounts overdue:		
Less than 3 months	<b>14.9</b>	14.7
3 to 6 months	<b>0.9</b>	1.6
6 to 12 months	<b>0.6</b>	1.3
More than 12 months	<b>0.4</b>	–

Assets past due but not impaired typically comprise high volume/low value balances for which CISGIL does not seek collateral but continues to work with counterparties to secure settlement.

### 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 cash flow statement.

### 18. Share capital

	<b>2008</b>	2007
<b>Authorised</b>		
183,000,000 ordinary shares of £1 each	<b>183.0</b>	183.0
<b>Allotted, called up and fully paid</b>		
183,000,000 ordinary shares of £1 each	<b>183.0</b>	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.

### 19. Reserves and retained earnings

	<b>2008</b>	2007
<b>Retained earnings</b>		
At the beginning of the financial year	<b>(0.6)</b>	(24.8)
(Loss)/profit for the year	<b>(19.2)</b>	24.2
At the end of the financial year	<b>(19.8)</b>	(0.6)

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

**19. Reserves (continued)**

	<b>Available for sale reserve 2008</b>	<b>Capital reserves 2008</b>	<b>Total 2008</b>	Available for sale reserve 2007	Capital reserves 2007	Total 2007
<b>Other reserves</b>						
At the beginning of the financial year	<b>(8.7)</b>	<b>126.0</b>	<b>117.3</b>	(18.3)	126.0	107.7
Gains less losses on available for sale investments	<b>(28.4)</b>	–	<b>(28.4)</b>	15.2	–	15.2
Losses transferred to profit or loss on impairment	<b>11.1</b>	–	<b>11.1</b>	–	–	–
Cumulative (losses)/gains transferred to the income statement on sale	<b>5.6</b>	–	<b>5.6</b>	(1.4)	–	(1.4)
Tax on items taken directly to equity	<b>3.3</b>	–	<b>3.3</b>	(4.2)	–	(4.2)
Net income recognised directly in equity	<b>(8.4)</b>	–	<b>(8.4)</b>	9.6	–	9.6
Dividend paid	–	<b>(41.0)</b>	<b>(41.0)</b>	–	–	–
Tax on dividend	–	<b>11.7</b>	<b>11.7</b>	–	–	–
At the end of the financial year	<b>(17.1)</b>	<b>96.7</b>	<b>79.6</b>	(8.7)	126.0	117.3

Reserves include £12.3m (2007: £9.3m) 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.

There are no gains or losses remaining within available for sale reserves relating to the financial assets reclassified as loans and receivables during the year. All gains and losses were transferred to the income statement on impairment of the available for sale asset.

**Capital reserves**

Capital reserves relates to a non-refundable capital contribution of £126m received from the parent, CFS. This amount is distributable.

**20. Other borrowed funds**

	<b>2008</b>	2007
Subordinated debt	<b>105.0</b>	105.0

£75.0m of subordinated debt was issued to the immediate parent, Corporate 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.

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 of £7.3m (2007: £6.2m) incurred during the financial period relate 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 contracts liabilities and reinsurance assets****(a) Analysis of insurance contract liabilities**

	<b>2008</b>	2007
<b>Gross</b>		
Claims reported	<b>416.2</b>	408.7
Claims incurred but not reported	<b>226.5</b>	322.7
Claims settlement expenses	<b>18.9</b>	22.3
Unearned premiums	<b>193.5</b>	200.4
Provision for unexpired risks	<b>6.7</b>	5.7
Total gross insurance liabilities	<b>861.8</b>	959.8
<b>Recoverable from reinsurers</b>		
Claims reported	<b>(4.1)</b>	(2.3)
Claims incurred but not reported	<b>(11.7)</b>	(6.9)
Unearned premiums	<b>(3.5)</b>	(2.8)
Total reinsurers' share of insurance liabilities	<b>(19.3)</b>	(12.0)
<b>Net</b>		
Claims reported	<b>412.1</b>	406.4
Claims incurred but not reported	<b>214.8</b>	315.8
Claims settlement expenses	<b>18.9</b>	22.3
Unearned premiums	<b>190.0</b>	197.6
Provision for unexpired risks	<b>6.7</b>	5.7
Total net insurance liabilities	<b>842.5</b>	947.8

**Claims**

The process for calculating claims reported and claims incurred but not yet reported has been changed during the current financial year to be more in line with current market practice and as such elements of claims outstanding previously included within claims reported are now included within claims incurred but not yet reported. Prior year figures have been restated for comparability purposes. Total claims outstanding are unchanged.

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:

	<b>2008</b>	2007
Outstanding claims	<b>204.6</b>	254.0
Claims incurred but not reported	<b>51.6</b>	169.5
	<b>256.2</b>	423.5

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 been established to write new and renewing general insurance business formerly written by CIS, a fellow subsidiary within the CFS Group. 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 contracts liabilities and reinsurance assets (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 judgement 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 and periodical payment settlements.

As outlined within the risk management section on pages 21 to 28, 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 10% 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. The average cost of bodily injury claims for the last three accident years on the motor account reflecting the increased proportion of similar claims relating to whiplash, and the known incidence of large claims.

The gross insurance provision for claims and loss adjustment expenses arising in respect of prior years of £445.0m (2007: £522.0) includes a movement of £58.3m (2007: £101.6m) arising from changes in assumptions and release of surplus, details are as follows:

	<b>2008</b>	2007
The extent of the expected speeding up of payment pattern for fire and accident did not materialise	(2.9)	–
Materialisation of a large claim for fire and accident	(2.0)	–
Reduction in volume of motor claims	8.3	13.6
Reduction in severity of motor claims	54.9	86.6
Reduction in the run-off pattern of fire and accident claims	–	1.4
	58.3	101.6

**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.

# Notes to the financial statements

All amounts are stated in £m unless otherwise indicated

## 21. Insurance contracts liabilities and reinsurance assets (continued)

<b>2008</b>	<b>Change in</b>	<b>Effect on</b>	<b>% Effect</b>	<b>Effect on net</b>	<b>% Effect</b>
<b>Assumption</b>	<b>parameter</b>	<b>gross provision</b>		<b>provision</b>	
<b>Motor</b>					
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 & legal	+1/2 year	+8.9	1.9%	+8.9	1.4%
Rate of future inflation – bodily injury	+1%	+6.7	1.4%	+6.7	1.4%
Ogden discount rate – bodily injury	-1/4%	+3.6	0.8%	+3.2	0.7%
<b>Other Classes</b>					
Mean term to settlement (liability)	+1/2 year	+1.0	3.0%	+1.0	3.0%
Mean term to settlement (non-liability)	+1/2 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)	-1/4%	+0.3	1.0%	+0.3	1.0%
	Change in	Effect on	% Effect	Effect on net	% Effect
	parameter	gross provision		provision	
<b>2007</b>					
<b>Assumption</b>					
<b>Motor</b>					
Average cost of claims for last 3 years – bodily injury	+10%	+24.9	4.6%	+24.9	4.8%
Average cost of claims for last 3 years – legal	+10%	+16.5	3.0%	+16.5	3.1%
Average cost of claims for last 3 years – third party property damage	+10%	+11.2	2.0%	+11.2	2.1%
Mean term to settlement – bodily injury & legal	+½ year	+16.5	3.0%	+16.3	3.0%
Rate of future inflation – bodily injury	+1%	+10.6	1.9%	+10.4	2.0%
Ogden discount rate – bodily injury	-½%	+8.4	1.5%	+6.7	1.3%
<b>Other Classes</b>					
Mean term to settlement (liability)	+½ year	+0.7	2.7%	+0.7	2.7%
Mean term to settlement (non-liability)	+½ year	+0.9	1.6%	+0.9	1.6%
Rate of future inflation (liability)	+1%	+0.5	2.0%	+0.5	2.0%
Rate of future inflation (non liability)	+1%	+0.5	0.9%	+0.5	0.9%
Ogden discount rate (liability)	-¼%	+0.3	1.2%	+0.3	1.2%

## 21. Insurance contracts liabilities and reinsurance assets (continued)

### c. Change in general insurance liabilities and reinsurance assets

#### i) Change in insurance contact liabilities (net of salvage and subrogation)

	<b>Gross 2008</b>	<b>Unexpired risk provision 2008</b>	<b>Salvage &amp; subrogation 2008</b>	<b>Net 2008</b>	Gross 2007	Unexpired risk provision 2007	Salvage & subrogation 2007	Net 2007
At the beginning of the financial year	<b>753.7</b>	<b>5.7</b>	<b>(53.5)</b>	<b>705.9</b>	906.3	4.6	(63.2)	847.7
Movement in the year	<b>(92.1)</b>	<b>1.0</b>	<b>0.9</b>	<b>(90.2)</b>	(152.6)	1.1	9.7	(141.8)
At the end of the financial year	<b>661.6</b>	<b>6.7</b>	<b>(52.6)</b>	<b>615.7</b>	753.7	5.7	(53.5)	705.9

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

#### ii) General insurance – claims and loss adjustment expenses

	<b>2008 Gross</b>	<b>2008 Reinsurance</b>	<b>2008 Net</b>	2007 Gross	2007 Reinsurance	2007 Net
Notified outstanding claims	<b>408.7</b>	<b>(2.3)</b>	<b>406.4</b>	506.0	(2.8)	503.2
Claims incurred but not reported	<b>322.7</b>	<b>(6.9)</b>	<b>315.8</b>	372.2	(1.8)	370.4
Claims settlement expenses	<b>22.3</b>	<b>–</b>	<b>22.3</b>	28.1	–	28.1
At the beginning of the financial year	<b>753.7</b>	<b>(9.2)</b>	<b>744.5</b>	906.3	(4.6)	901.7
Claims paid during the financial year	<b>(403.7)</b>	<b>4.5</b>	<b>(399.2)</b>	(461.3)	5.6	(455.7)
Increase in liabilities:						
Arising from current year claims	<b>369.9</b>	<b>(12.7)</b>	<b>357.2</b>	410.3	(11.9)	398.4
Arising from prior year claims	<b>(58.3)</b>	<b>1.6</b>	<b>(56.7)</b>	(101.6)	1.7	(99.9)
Total movement	<b>(92.1)</b>	<b>(6.6)</b>	<b>(98.7)</b>	(152.6)	(4.6)	(157.2)
Notified claims	<b>416.2</b>	<b>(4.1)</b>	<b>412.1</b>	408.7	(2.3)	406.4
Incurred but not reported	<b>226.5</b>	<b>(11.7)</b>	<b>214.8</b>	322.7	(6.9)	315.8
Claims settlement expenses	<b>18.9</b>	<b>–</b>	<b>18.9</b>	22.3	–	22.3
At the end of the financial year	<b>661.6</b>	<b>(15.8)</b>	<b>645.8</b>	753.7	(9.2)	744.5

**21. Insurance contracts liabilities and reinsurance assets (continued)****iii) General insurance – provisions for unearned premiums**

	<b>2008 Gross</b>	<b>2008 Reinsurance</b>	<b>2008 Net</b>	2007 Gross	2007 Reinsurance	2007 Net
At the beginning of the financial year	<b>200.4</b>	<b>(2.8)</b>	<b>197.6</b>	224.2	(3.0)	221.2
Increase in the financial year	<b>394.4</b>	<b>(19.2)</b>	<b>375.2</b>	412.8	(16.9)	395.9
Release in the financial year	<b>(401.3)</b>	<b>18.5</b>	<b>(382.8)</b>	(436.6)	17.1	(419.5)
Movement in the financial year	<b>(6.9)</b>	<b>(0.7)</b>	<b>(7.6)</b>	(23.8)	0.2	(23.6)
At the end of the financial year	<b>193.5</b>	<b>(3.5)</b>	<b>190.0</b>	200.4	(2.8)	197.6

**iv) General insurance – provisions for unexpired risk**

	<b>2008 Gross</b>	<b>2008 Reinsurance</b>	<b>2008 Net</b>	2007 Gross	2007 Reinsurance	2007 Net
At the beginning of the financial year	<b>5.7</b>	–	<b>5.7</b>	4.6	–	4.6
Increase in the financial year	<b>6.7</b>	–	<b>6.7</b>	5.7	–	5.7
Release in the financial year	<b>(5.7)</b>	–	<b>(5.7)</b>	(4.6)	–	(4.6)
Movement in the financial year	<b>1.0</b>	–	<b>1.0</b>	1.1	–	1.1
At the end of the financial year	<b>6.7</b>	–	<b>6.7</b>	5.7	–	5.7

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**

<b>Gross of reinsurance</b>	<b>Accident year</b>			<b>Total</b>
	2006	2007	<b>2008</b>	
At end of accident year:	1,367.9	384.5	347.3	2,099.7
One year later	1,264.7	387.8	–	1,652.5
Two years later	1,199.4	–	–	1,199.4
Estimate for cumulative claims	1,199.4	387.8	347.3	1,934.5
Cumulative payments to date	(879.3)	(270.6)	(141.9)	(1,291.8)
Gross outstanding claims liabilities	320.1	117.2	205.4	642.7
Gross claims reported				416.2
Gross claims incurred but not reported				226.5
Gross outstanding claims liabilities				642.7
<b>Net of reinsurance</b>		<b>Accident year</b>	<b>2008</b>	<b>Total</b>
	2006	2007		
At end of accident year:	1,362.9	372.6	334.6	2,070.1
One year later	1,261.4	377.6	–	1,639.0
Two years later	1,196.0	–	–	1,196.0
Estimate for cumulative claims	1,196.0	377.6	334.6	1,908.2
Cumulative payments to date	(877.5)	(266.1)	(137.7)	(1,281.3)
Net outstanding claims liabilities	318.5	111.5	196.9	626.9
Net claims reported				412.1
Net claims incurred but not reported				214.8
Net outstanding claims liabilities				626.9

## 22. Other provisions

	2008	2007
At the beginning of the financial year	1.0	4.0
Provision released	(1.0)	(3.0)
At the end of the financial year	–	1.0

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

## 23. Insurance and other payables

	2008	2007
Arising out of direct insurance operations	2.8	4.2
Accruals and deferred income	2.9	2.4
Other taxation and social security	7.6	8.1
Amounts due to Group companies	10.5	8.5
Other payables	26.8	18.1
	<b>50.6</b>	<b>41.3</b>

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

## 24. Other reinsurance liabilities

	2008	2007
Deposits received from reinsurers	0.1	0.1
Arising from reinsurance operations	5.4	4.4
	<b>5.5</b>	<b>4.5</b>

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

## 25. Income tax

	2008	2007
<b>Current tax</b>		
At the beginning of the financial year	(11.8)	6.6
Tax credited/(charged) to the income statement	8.8	(8.2)
Tax charged/(credited) directly to equity:		
Valuation gains/(losses) on available for-sale investments taken to equity	3.3	(4.2)
Dividends paid	11.7	–
Tax paid/(recovered) during the financial year	10.5	(6.0)
At the end of the financial year	<b>22.5</b>	<b>(11.8)</b>

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2007: 28%).

	2008	2007
<b>Deferred tax liability</b>		
At the beginning of the financial year	(2.7)	(1.0)
Tax charged to the income statement	(1.2)	(1.7)
At the end of the financial year	<b>(3.9)</b>	<b>(2.7)</b>
<i>Analysis of deferred tax liability</i>		
Claims equalisation reserve	(4.8)	(3.8)
Other timing differences	0.9	1.1
	<b>(3.9)</b>	<b>(2.7)</b>

# Notes to the financial statements

All amounts are stated in £m unless otherwise indicated

## 26. Employee benefits

### Post PACE

#### 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). 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 the liabilities, assets and costs to individual companies participating in the Scheme. Therefore the pension cost shown in these accounts in respect of the Scheme for the period after 6 April 2006 are the actual contributions paid by CISGIL.

The key aspects of Co-operative Group Limited's pension scheme are as follows:

	<b>2008</b>	2007
The principal assumptions used to determine the liabilities of the Group's pension schemes were:		
Discount rate	<b>5.70%</b>	5.65%
Rate of increase in salaries	<b>4.75%</b>	5.15%
Future pension increases where capped at 5.0% pa	<b>3.25%</b>	3.65%
Future pension increases where capped at 2.50% pa	<b>2.50%</b>	2.50%

#### Assumptions used to determine net pension cost for the PACE scheme are:

Expected long term return on scheme assets	<b>5.65%</b>	5.10%
Rate of increase in salaries	<b>6.40%</b>	6.30%
	<b>5.15%</b>	4.50%

#### Assumptions used to determine net pension cost for the former United Co-operatives schemes are:

Discount rate	<b>5.65%</b>	5.40%
Expected long term return on scheme assets	<b>6.50%</b>	7.30%
Rate of increase in salaries	<b>5.15%</b>	4.80%

The average life expectancy (in years) for mortality tables used to determine scheme liabilities for the PACE scheme and the former United Co-operatives schemes at 10 January 2009 are:

#### Life expectancy at age 65

	<b>Male</b>	<b>Female</b>
Member currently aged 65 (current life expectancy)	<b>20.3</b>	<b>23.2</b>
Member currently aged 45 (life expectancy at age 65)	<b>21.3</b>	<b>24.1</b>

	<b>2008</b>	2007
	<b>£m</b>	<b>£m</b>
The amounts recognised in the balance sheet of the Co-operative Group are as follows:		
Present value of funded obligations	<b>(4,799.9)</b>	(5,073.6)
Present value of unfunded liabilities	<b>(3.5)</b>	(3.7)
Fair value of plan assets	<b>5,204.6</b>	5,511.7
	<b>401.2</b>	434.4

The pension scheme assets include property occupied by the Group at fair value of £1.1m (2007: £1.1m)

	<b>2008</b>	2007
	<b>£m</b>	<b>£m</b>
<b>The weighted-average asset allocations at the year-end were as follows:</b>		
Equities	<b>42%</b>	43%
Liability-driven investments	<b>54%</b>	21%
Property	<b>4%</b>	5%
Cash	<b>0%</b>	1%

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 6.4% assumption for the year ended 10 January 2009.

## 27. Contingent assets and liabilities

No contingent assets or liabilities have been identified at 10 January 2009 (2007: £nil).

## 28. Commitments

No commitments are in place as at 10 January 2009 (2007: £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 are considered to include the Board and Executive members of the Group. Details of transactions and balances during the financial period are provided below.

	<b>Balances with parent undertaking 2008</b>	<b>Balances with other related parties 2008</b>	Balances with parent undertaking 2007	Balances with other related parties 2007
<b>Balances with related parties</b>				
At the beginning of the financial year	<b>(105.0)</b>	<b>(445.1)</b>	(72.0)	(742.5)
Movement in capital value	–	<b>183.1</b>	(33.0)	297.4
At the end of the financial year	<b>(105.0)</b>	<b>(262.0)</b>	(105.0)	(445.1)

During the financial period CISGIL has settled claims of £106.5m (2007: £191.1m) 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 £256.1m (2007: £423.5m), being outstanding claims liabilities.

CISGIL has issued subordinated debt to its intermediate parent CFS. Interest during the financial period amounted to £7.3m (2007: £6.2m).

CISGIL paid a membership dividend to its ultimate parent, Co-operative Group Limited, during the year of £1.9m (2007: £0.7m).

CISGIL have bank accounts with The Co-operative Bank p.l.c. a fellow subsidiary. At the end of 2008, aggregate balance stood at £2.7m (2007: overdraft of £0.3m).

Co-operative Legal Services Limited, a fellow subsidiary of Co-operative Group Limited, provide legal cover to CISGIL motor and home policyholders. CISGIL has incurred £1.0m (2007: £1.0m) as an expense in relation to this cover.

During the year management fees of £184.0m (2007: £189.1m) included in operating expenses and claims incurred were charged to CISGIL from CFSMS.





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# The **co-operative** insurance

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[www.cis.co.uk](http://www.cis.co.uk)  
Registered Number: 29999R