CIS General Insurance Limited

Annual report and accounts 2013

The **co-operative**

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Part of The Co-operative Group Limited

Contents

This is the Directors' Report for CIS General Insurance Limited (CISGIL). It explains in detail how CISGIL has performed during 2013 and sets out a fair review of the business, a balanced and comprehensive analysis of performance, the use of financial and non-financial key performance indicators to explain the progress made, a description of the significant risks and uncertainties faced by the business and an indication of likely future developments.

In preparing the report, CISGIL has had regard to the guidance issued by the Financial Reporting Council (formerly the Accounting Standards Board) in its Reporting Statement on narrative reporting. It is intended to provide shareholders of CISGIL and members of The Co-operative Group with a greater understanding of CISGIL, its position in the market and its prospects.

In setting out CISGIL's main risks and uncertainties, and likely future developments, this report and accounts contains statements which, by their nature, cannot be considered indications of likelihood or certainty. The statements are based on the knowledge and information available at the date of preparation of the Directors' Report, and what are believed to be reasonable judgments, and these statements should not be construed as a profit forecast.

Strategic report

Principal activities

CIS General Insurance Limited (CISGIL) is a UK-based General Insurer that operates predominantly within the personal lines segments of the Motor and Home Insurance markets under the Co-operative Insurance brand. CISGIL underwrites the majority of business written, supplemented with some small lines of business where CISGIL acts as a distributor or has a 100% reinsurance arrangement in place.

Financial performance

Highlights

Results summary	2013 £m	2012 £m	Change £m
Net earned premiums	**476.5**	579.6	(103.1)
Net policyholder claims and benefits incurred	**(330.8)**	(502.0)	171.2
Investment return	**40.9**	74.8	(33.9)
Commission and expenses	**(160.7)**	(153.8)	(6.9)
Other income	**13.6**	14.3	(0.7)
Finance costs	**(3.5)**	(3.6)	0.1
Operating result	**36.0**	9.3	26.7
Significant items	**–**	(4.9)	4.9
Financial Services Compensation Scheme levies	**(2.4)**	(1.4)	(1.0)
Profit before taxation	**33.6**	3.0	30.6
Gross written premiums	**443.6**	555.7	(112.1)
Claims ratio[1]	**69.4%**	86.6%	–
Commission and expense ratio (excluding significant items)[2]	**30.3%**	23.9%	–
Combined operating ratio (excluding significant items)[3]	**99.7%**	110.5%	–

1. Net claims divided by net earned premiums.
2. Operating expenses (excluding significant items) and net commission expense divided by net earned premium.
3. Combination of the claims ratio and the commission and expense ratio.

CISGIL achieved a significant improvement in performance in 2013 with profit before taxation increasing from £3.0m in 2012 to £33.6m, due mainly to better claims experience compared to the prior year, more than offsetting the impact of the fall in premium income and the significant reduction in investment income. The result is driven by the continued strong performance of the Home portfolio, supported by markedly improved profitability in the Motor portfolio.

Gross written premium reduced by £112.1m (20.2%) to £443.6m, driven by a combination of CISGIL's reduced appetite for exposure to the Motor broker channel, an increasingly competitive market, and the impact of the EU Gender Directive on average Motor premiums. CISGIL has maintained a disciplined approach to underwriting and these factors have led to lower business volumes as well as significant reductions in average motor premiums. Retention rates for Motor business have improved slightly relative to 2012 and retention remains strong relative to other insurers, reflecting the loyalty of our customers and the strength of the Co-operative Insurance service.

The claims ratio for 2013 improved significantly from 86.6% to 69.4% as the benefits of action taken to improve the quality of underwriting and pricing in the Motor portfolio begin to be realised coupled with a shift in mix towards Home insurance.

In common with the market, investment returns are materially lower than in prior years reflecting the lower yields available. Gains of £13.0m (2012: £23.2m) were realised on the sale of investment assets during the year, mainly to reduce exposure to capital volatility.

Whilst tight focus was maintained on costs, the commission and expense ratio increased from 23.9% in 2012 to 30.3%, reflecting lower premium income.

Developments in 2013

In March 2013, CISGIL's ultimate parent, The Co-operative Group (the Group) announced the potential sale of CISGIL as part of the recapitalisation plan for The Co-operative Bank plc (the Bank). The Group received significant interest in the business but, following the revised terms of the Bank restructuring exercise, the Group was able to announce in January 2014 the intention to retain CISGIL, recognising its significant growth potential.

Following the successful recapitalisation of the Bank, which resulted in the legal separation of the Bank from the Group, a significant programme of activity to physically separate the Bank has commenced.

Significant investment was maintained in the Co-operative Insurance brand throughout 2013 and television advertising was reintroduced to grow brand recognition and new business. The first television adverts were aired in July 2013 and have continued throughout the remainder of the year.

2013 saw the delivery of important new capability. Distribution reach was extended through the addition of the Home insurance product to the Compare the Market price comparison website. CISGIL's use of external data in terms of pricing was enhanced. Compliance with the Payment Card Industry (PCI) data security standards has been achieved and CISGIL has continued to manage fraud risk with the implementation of new application fraud controls. CISGIL also delivered compliance with the requirements of the Employers' Liability Tracing Office (ELTO).

Customer engagement and colleague engagement has fallen during 2013 reflecting the unprecedented level of media coverage of the Group in general and the Bank in particular. Despite this, customer retention has remained strong and CISGIL won a number of awards, including Best Motor Insurer at the Your Money 2013 awards. For both motor and home insurance CISGIL won the Intelligent Choice Award for Customer Satisfaction and Customer Service and for home insurance, the Intelligent Choice Award for Cover.

The Intelligent Choice Awards are based on real customer experiences and opinions. These are collected through Consumer intelligence's insurance behaviour tracker product which surveys 4,000 consumers every month for motor and home insurance.

We also remain a Which? Recommended provider for motor insurance.

Business environment

Market background

2013 has been a year of challenging trading conditions in the insurance sector. Market pricing has softened significantly across both Motor and Home, intensifying competition. Motor premiums in particular have reduced, with year-on-year reductions of between 10% and 15% driven in part by the impact of the Legal Aid, Sentencing and Punishment of Offenders (LASPO) legal reforms. Home pricing has fallen as a consequence of the largely benign weather conditions in 2013 (despite the December storms and flooding). As always in this kind of competitive environment, discounting and value promotion are commonplace.

Investment yields have fallen significantly representing a major systemic change which should lead to an increased focus on underwriting discipline in order to drive profitability. CISGIL performance has been specifically impacted by movements in the return on corporate bonds.

Customer preference continues to shift to online channels and there is growing evidence of customers expecting to move between channels seamlessly. The dominance of online purchasing is shaping customer expectations that other customer engagement can be undertaken online.

Regulatory scrutiny is intensifying with particular focus arising from thematic reviews by the Financial Conduct Authority (FCA) and the Competition Commission enquiry into private motor insurance. Whilst this will put pressure on margins, which insurers may seek to recover from headline pricing, CISGIL expects to benefit relative to the market as many of the practices under review are not used by CISGIL.

Regulatory change

In April 2013 the main elements of the LASPO Act and associated legal reforms came into effect, banning referral fees for personal injury claims amongst other changes. As expected, CISGIL saw an increase in new claim notifications in the quarter prior to the reforms being implemented with a marked reduction subsequently.

The Flood Statement of Principles expired at the end of June 2013, but was temporarily extended on a voluntary basis. The replacement solution, Flood-Re, is currently being scoped with implementation expected in mid-2015.

The FCA is expanding the use of thematic reviews and CISGIL continues to adapt to the changing regulatory landscape. A review of General Insurance add-ons is ongoing with a further review of auto-renewal expected following an earlier review of Unfair Contract Terms. A thematic review of Motor Legal Expenses Insurance examined a number of perspectives including value and usefulness, customer understanding and the sales process. CISGIL made a number of changes in process as a consequence.

The Lord Chancellor is still reviewing the discount rates at which lump sum payments are calculated for injured third parties (Ogden rates). CISGIL has considered a range of impacts which are taken account of when setting current reserves.

New European Union rules on solvency are to be launched in January 2016 (Solvency II) which CISGIL continues to work towards. Despite the delays in finalising the European Directive, CISGIL is making good progress with its implementation plans.

Strategy

Following the challenges of 2013, the renewal of The Co-operative Group has begun in earnest in 2014. CISGIL will seek to play a key role in this renewal through being a fair, successful and growing insurer providing great value products with a focus on Co-operative members.

Outlook

Market conditions will remain challenging over the next 12 to 18 months with pricing expected to remain soft over at least the first half of 2014. In response, insurers are strengthening technical capabilities in pricing and underwriting together with increased use of data enrichment. Investment returns are forecast to be subdued for some time which will increase the focus on underwriting discipline in the medium term.

The intensity of regulatory change is expected to continue. The outcomes of the Competition Commission enquiry into the private motor insurance market are potentially far-reaching. CISGIL continues to engage with the enquiry and agrees with many of the findings of the Commission.

Telematics based motor insurance products are expected to continue to gain in popularity as customers recognise the benefits of the product and insurers develop propositions further. CISGIL plans to further develop its own telematics proposition over time to respond to this market opportunity, and leverage the value of the data gained to date.

The separation of the Bank requires significant IT change for CISGIL as the businesses separate, the cost of which is to be shared between the Bank and the Group. In addition, the development of a closer relationship with The Co-operative Group offers significant business opportunity, not least through more effective engagement with Co-operative members.

Principal risks and uncertainties

The following are considered to be the principal risks facing CISGIL:

	Risk type	Definition
A	Strategic and business risks	The risk to earnings and capital that may arise as a result of strategic/management decisions or business choices or lack of responsiveness to changes in the business environment
B	Reputation risk	The risk associated with an issue which could in some way be damaging to the brand of the organisation among all or any stakeholders
C	Conduct risk	The risk that CISGIL's behaviours, offerings or interactions will result in unfair outcomes for customers
D	Regulatory risk	The risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK and EU regulatory requirements
E	Insurance risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities
F	Market risk	The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers e.g. interest rates, market prices of assets and liabilities
G	Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events
H	Liquidity risk	The current and prospective risk to earnings or capital arising from CISGIL's inability to meet its obligations when they come due without incurring unacceptable losses
I	Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations
J	Pension risk	The risk to capital and company funds from exposure to scheme liabilities (to the extent liabilities are not met by scheme assets) and risks inherent in the valuation of scheme liabilities and assets

For each of the principal risks, CISGIL Board has approved risk policies and risk appetite statements with underpinning metrics. The metrics have approved limits within which business operations are to be conducted, along with thresholds to give early warning of emerging issues.

CISGIL is exposed to Group risks as a result of being part of the Group. CISGIL does not classify Group risks as a risk-type and instead captures them within other risk-types. In particular, strategic and business risks include impacts of the Group's strategy upon CISGIL, reputation risk includes impacts of reputational issues arising elsewhere in the Group, operational risk includes risks from services shared with other parts of the Group and pension risk includes risks with CISGIL's contributions to the Group pension scheme.

More detail regarding these risks can be found in the Risk Management section of these accounts on pages 22 to 31.

Key performance indicators

The business strategy for CISGIL measures success in four key areas: earnings and volatility, capital adequacy and risk appetite, liquidity, and brand and reputation. This 'balanced scorecard' approach is a key reflection of our co-operative difference and helps us ensure that in the decisions we make as a business we focus on the implications to areas identified as key in our progress towards our strategic vision.

Earnings and volatility

Earnings and volatility measures focus on profitability and efficiency

Gross written premium

This shows the level of premium income that General Insurance (GI) business classes are bringing into CISGIL.

Core operating ratio

This compares the levels of claims, costs and commissions being paid out against the level of earned premium.

Technical result after debt

This is the GI equivalent measure to operating profit, showing the position before the expense of significant initiatives is deducted.

Capital adequacy and risk appetite

Capital adequacy and risk appetite measures focus on underlying financial strength

Capital requirement

There are a number of different methodologies for calculating the minimum level of capital that CISGIL must maintain. At any one time CISGIL must ensure it has sufficient capital to meet the most onerous of these requirements.

Liquidity

Liquidity measures focus on working capital efficiency

Liquidity requirement

This reports the expected available liquidation value of assets in the event of a catastrophe scenario. Actual asset values are adjusted using a risk weighted approach.

Brand and reputation

Brand and reputation metrics focus on key relationships, internal and external, through which we sustain and grow our business

Customer engagement

Customer engagement is the percentage of customers who have given a satisfaction score of between 8 and 10 based on their overall experience as a customer (on a scale of 1-10, with 10 being extremely satisfied).

Colleague engagement

Our colleague engagement assessment is derived from our twice-yearly internal colleague survey. This is the combined score for all the functions in the end to end business.

	2013	2012
Gross written premium	**£443.6m**	£555.7m
Core operating ratio	**99.7%**	110.5%
Technical result (after debt)	**£37.3m**	£9.3m

All regulatory capital requirements have continuously been met.

	2013	2012
Liquidity requirement	**£764m**	£788m

	2013	2012
Customer engagement	**75%**	78%
Colleague engagement	**65%**	80%

By order of the Board

Liz Blackham
Deputy Secretary
16 April 2014

Directors' report

The Board

Non-Executive Directors:

Robert Newton	(BSc, FIA, CDir). Age 64. Joined the Board in 2007. Over 40 years' experience in the financial services industry. Chair of Silentair Group Limited. Non-Executive Director of UIA (Insurance) Limited, Reclaim Fund Ltd and The Co-operative Banking Group Limited.
David Davies	(BSc (Econ), FIA). Age 66. Joined the Board in 2005. Extensive experience of the financial services industry. Chair of Nortel Networks UK Pension Scheme. Non-Executive Director of Interglobal Insurance Company Limited.
Neil McKenzie	(FCII). Age 59. Joined the Board in 2013. Over 30 years general insurance experience, having worked for a range of organisations in senior leader positions. Non-Executive Director of JBS Executive Education Limited.
Andrew Wainwright-Brown	(ACIS, FCII). Age 54. Joined the Board in 2013. Over 30 years' experience in the insurance sector working in senior finance and operational roles. Non-Executive Director (Industry and Finance Specialist) of UIA (Insurance) Limited and Trustee of the NW Pension Plan 1977.

Executive Director:

Mark Summerfield	(BA(Hons) (Econ), ACII). Age 52. Joined the Board in 2013. 29 years financial services experience. Responsible for the insurance businesses that forms a part of The Co-operative Banking Group Limited, specifically as Managing Director, Co-operative Banking Group currently and previously as Managing Director, Insurance Division, and as CEO of The Co-operative Asset Management Limited and the Co-operative Insurance Society Limited (CISL) prior to the sale of those entities to the Royal London Group in July 2013. Mark joined The Co-operative Group in April 2004 working within CISL. Prior to The Co-operative Mark worked for Fleming & Co, Prudential PLC, and MISYS PLC in a variety of general management roles.

Report of the Board of Directors

Changes to the Board

The names of the present members of the Board, their biographies and details of length of service are set out on page 6.

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

	Date of appointment	Date of resignation
Non-Executive Directors:		
Robert Newton (Chair)		
David Davies		
Neil McKenzie	6 November 2013	
Andrew Wainwright-Brown	31 October 2013	
Executive Directors:		
David Neave (Managing Director)		11 February 2013
Mark Summerfield (Managing Director, Co-operative Banking Group)	9 April 2013	
Barry Tootell (Chief Executive)		10 May 2013

Election of directors

Appointments to the CISGIL Board are made by The Co-operative Banking Group Limited (the Banking Group) Board.

Re-appointment of directors

Under the Rules of Society (the Rules), with the exception of the executive directors, the directors are appointed for a three year term starting on the day following the Annual General Meeting (AGM) for the year in which they are appointed. Each director, with the exception of the executive directors, shall be appointed for a term of three years and is eligible for reappointment at the end of each term of office.

All directors eligible for re-appointment continue to demonstrate commitment to their roles.

The AGM will be held on 27 May 2014.

Board Committees

To strengthen the governance of CISGIL, the Board established Audit and Risk Committees in September 2013. The Board has delegated certain responsibilities to these Committees, both of which have written terms of reference covering the authority delegated by the Board. The Board will consider whether to establish a remuneration committee during the next year. For the period under review such matters have been addressed to the Remuneration and Appointments Committee of the Banking Group Board.

The Board Audit Committee comprises three members; Andrew Wainwright-Brown (Chair), Neil McKenzie and David Davies.

The Board Risk Committee comprises three members; Neil McKenzie (Chair), Andrew Wainwright-Brown and Mark Summerfield.

Attendance

The table below sets out the frequency, and related attendance of the Board and Committee meetings for the period under review by directors.

In the case of a director being unable to attend a meeting, the Chair has received a satisfactory reason for their absence.

	Board	Audit Committee	Risk Committee
Robert Newton	13 (13)	–	–
David Davies	13 (13)	1(1)	–
Mark Summerfield	9 (9)	–	1(1)
Andrew Wainwright-Brown	1 (2)	1(1)	0(1)
Neil McKenzie	2 (2)	1(1)	1(1)

The number in brackets indicates the number of meetings the director was entitled to attend.

Directors' and officers' liability insurance and indemnity

CISGIL maintains appropriate directors' and officers' liability insurance cover, through the Co-operative Group Limited which is the ultimate parent organisation, in respect of legal action against its directors and officers. The insurance cover was renewed in January 2014.

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

Directors and their interests

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

Employees

CISGIL has no employees. All sales have been effected through brokers and employees of CFS Management Services Limited (CFSMS), a subsidiary of the Banking Group, 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 in the first half of 2014, describes how The Co-operative Group and the Banking Group of companies, including CISGIL, manage their social, ethical and environmental impacts.

Annual report and accounts

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.

Post balance sheet events

In March 2013 The Co-operative Group announced plans to sell CISGIL, with proceeds of the sale envisaged to be a part of the Group's planned £1bn contribution to the recapitalisation of The Co-operative Bank.

In January 2014, having considered the sale process and in light of changed requirements under the Bank recapitalisation process, it was decided to reverse the decision to sell. CISGIL's significant growth potential was taken into account in reaching this decision.

CISGIL has entered into an indemnification agreement with Royal London (CIS) Limited, formerly Co-operative Insurance Society Limited (CISL), to assume financial responsibility for the run off of the general insurance business formerly written by CISL. A High Court hearing took place on 17 March 2014, where the Court was asked to approve the Part VII transfer, to CISGIL, of this business in run off. The approval of the Court was received, and the Part VII transfer took effect on 31 March 2014.

Statement of directors' responsibilities in respect of the report of the Board of Directors and the annual report and accounts

The directors are responsible for preparing the annual report and accounts in accordance with applicable law and regulations.

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

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

In preparing CISGIL's annual report and accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the annual report and accounts on the going concern basis unless it is inappropriate to presume that CISGIL's 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 CISGIL's and enable them to ensure that its annual report and accounts comply with the regulations. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of CISGIL and to prevent and detect fraud and other irregularities.

Under applicable law, the directors are also responsible for preparing a Strategic Report and Directors' Report that complies with the regulations.

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

Statement of going concern

The annual report and accounts are prepared on a going concern basis as the directors are satisfied that CISGIL has the resources to continue in business for the foreseeable future. In making this assessment, the directors have considered a wide range of information relating to present and future conditions including future profitability, cash flows and capital resources. Further information relevant to the assessment is provided within the basis of preparation of the annual report and accounts on page 16.

Auditors

Our auditor, KPMG Audit Plc, has instigated an orderly wind down of business. The Board has decided to put KPMG LLP forward to be appointed as auditors and resolution concerning their appointment will be put to the forthcoming AGM of the company.

By order of the Board

Liz Blackham, Deputy Secretary
16 April 2014

Independent auditor's report

Independent auditor's report to the members of CIS General Insurance Limited

We have audited the annual report and accounts of CIS General Insurance Limited (CISGIL) for the year ended 31 December 2013 set out on pages 10 to 21, in notes E, F, H and I, on pages 25 to 31, and on pages 32 to 51. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to CISGIL's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to CISGIL and as modified by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 and to facilitate compliance with section 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to CISGIL's members those matters we are required to state to them in an auditor's report and to facilitate compliance by CISGIL's directors with the requirement relating to section 496 of the Companies Act 2006, as applied to CISGIL by Regulation 3 of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than CISGIL and CISGIL's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the annual report and accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the annual report and accounts accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the annual report and accounts

A description of the scope of an audit of annual report and accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on annual report and accounts

In our opinion the annual report and accounts:

- give a true and fair view of the state of CISGIL's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU, as applied in accordance with the provisions of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which apply the provisions of chapters 4 and 5 of part 15 of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which modify and apply the Industrial and Provident Societies Acts 1965 to 2003.

Opinion in order to facilitate compliance by CISGIL's directors with the requirement relating to section 496 of the Companies Act 2006, as applied to CISGIL by Regulation 3 of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the annual report and accounts are prepared is consistent with the annual report and accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2003 require us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the annual report and accounts are not in agreement with the books of account; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Karen Orr
Senior Statutory Auditor
for and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants
St James Square
Manchester
M2 6DS
16 April 2014

Income statement

For the year ended 31 December 2013

All amounts are stated in £m unless otherwise indicated

	Notes	2013	2012
Income			
Gross earned premiums		**509.0**	610.4
Less premiums ceded to reinsurers		**(32.5)**	(30.8)
Net earned premiums	2	**476.5**	579.6
Fee and commission income	3	**13.3**	10.7
Investment income	4	**27.9**	51.6
Gains less losses arising from financial instruments	5	**13.0**	23.2
Other operating income	6	**0.3**	3.6
Net income		**531.0**	668.7
Claims paid		**(410.0)**	(482.8)
Less amounts receivable from reinsurers		**6.8**	9.9
Net policyholder claims and benefits paid	7	**(403.2)**	(472.9)
Change in insurance contract liabilities	20	**60.2**	(25.0)
Change in reinsurance assets	20	**12.2**	(4.1)
Net policyholder claims and benefits incurred		**(330.8)**	(502.0)
Fee and commission expenses	8	**(19.8)**	(21.7)
Operating expenses	9	**(140.9)**	(132.1)
Financial Services Compensation Scheme levies		**(2.4)**	(1.4)
Finance costs		**(3.5)**	(3.6)
Profit before taxation and significant items		**33.6**	7.9
Significant items	9	**–**	(4.9)
Profit before taxation		**33.6**	3.0
Income tax	10	**(5.9)**	(0.5)
Profit for the financial year		**27.7**	2.5

Profit for the financial year is attributable to the equity shareholder and relates to continuing activities.

2012 significant items relate to expenditure associated with the Banking Group programme of investment and integration.

The accounting policies and notes on pages 15 to 51 form part of these financial statements

Statement of comprehensive income

For the year ended 31 December 2013

All amounts are stated in £m unless otherwise indicated

	Notes	2013	2012
Profit for the financial year		**27.7**	2.5
Changes in available for sale assets:			
Net changes in fair value recognised directly in equity		**(14.2)**	59.7
Net gains transferred from equity to the income statement		**(13.0)**	(22.9)
Income tax	21	**6.3**	(9.0)
Other comprehensive (expense)/income for the financial year, net of income tax		**(20.9)**	27.8
Total comprehensive income for the financial year		**6.8**	30.3

Total comprehensive income for the financial year is attributable to CISGIL's equity holders and relates to continuing activities. All items will be reclassified subsequently to the income statement when assets are sold.

The accounting policies and notes on pages 15 to 51 form part of these financial statements

Balance sheet

At 31 December 2013

All amounts are stated in £m unless otherwise indicated

	Notes	2013	2012
Assets			
Deferred acquisition costs	11	**35.3**	29.9
Reinsurance assets	20	**56.8**	44.8
Financial investments at fair value through income or expense	12	**207.6**	314.0
Available for sale assets	13	**763.4**	773.5
Insurance receivables and other assets	14	**208.5**	224.7
Loans and receivables	15	**–**	50.0
Total assets		**1,271.6**	1,436.9
Capital and reserves attributable to equity holders			
Share capital	17	**183.0**	183.0
Retained earnings	18	**49.9**	22.2
Other reserves	18	**50.0**	70.9
Total equity		**282.9**	276.1
Liabilities			
Insurance contract liabilities	20	**866.3**	1,028.7
Other borrowed funds	19	**85.0**	85.0
Deferred tax liabilities	21	**5.7**	6.4
Current tax liabilities	21	**4.9**	4.0
Other reinsurance liabilities	22	**–**	2.3
Insurance and other payables	23	**17.9**	21.9
Bank overdraft	16	**8.9**	12.5
Total liabilities		**988.7**	1,160.8
Total equity and liabilities		**1,271.6**	1,436.9

Approved by the Board of Directors on 16 April 2014 and signed on its behalf by:

Robert Newton, Chairman
Mark Summerfield, Director
Liz Blackham, Deputy Secretary

The accounting policies and notes on pages 15 to 51 form part of these financial statements

Statement of cash flows

For the year ended 31 December 2013

All amounts are stated in £m unless otherwise indicated

	Notes	2013	2012
Cash flows from operating activities			
Profit before taxation		**33.6**	3.0
Adjustment for:			
Interest payable		**3.5**	3.6
Amortisation of investments		**10.4**	7.0
(Increase)/decrease in deferred acquisition costs		**(5.4)**	3.7
(Increase)/decrease in reinsurance assets		**(12.0)**	5.5
(Increase)/decrease in available for sale assets		**(27.5)**	225.6
Decrease/(increase) in financial investments at fair value through income and expense		**106.4**	(250.4)
Decrease in insurance receivables and other assets		**16.2**	13.0
Decrease in insurance contract liabilities		**(162.4)**	(14.9)
Decrease in derivative financial instruments		**–**	(0.3)
Decrease in other reinsurance liabilities		**(2.3)**	(6.3)
Decrease in insurance and other payables		**(4.0)**	(2.3)
Income tax received	21	**0.6**	12.7
Net cash flows from operating activities		**(42.9)**	(0.1)
Cash flows from investing activities			
Disposal of property, plant and equipment		**–**	39.0
Disposal of investment property		**–**	11.0
Decrease/(Increase) in loans and receivables		**50.0**	(50.0)
Net cash flows from investing activities		**50.0**	–
Cash flows from financing activities			
Interest paid		**(3.5)**	(3.6)
Net cash flows from financing activities		**(3.5)**	(3.6)
Net increase/(decrease) in cash and cash equivalents		**3.6**	(3.7)
Cash and cash equivalents at the beginning of the financial year		**(12.5)**	(8.8)
Cash and cash equivalents at the end of the financial year	16	**(8.9)**	(12.5)

Cash flows from operating activities

CIS General Insurance Limited (CISGIL) classifies the cash flows for the acquisition and disposal of financial assets as operating cash flows. This is because 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 classified under operating activities. Additionally, operating cash flows include interest received of £31.4m (2012: £48.0m).

Bank overdrafts are included within cash and cash equivalents in the statement of cash flows.

The accounting policies and notes on pages 15 to 51 form part of these financial statements

Statement of changes in equity

For the year ended 31 December 2013

All amounts are stated in £m unless otherwise indicated

	Share capital	Available for sale reserve	Capital reserve	Retained earnings	Total
2013					
Balance at the beginning of the financial year	**183.0**	**13.8**	**57.1**	**22.2**	**276.1**
Total comprehensive (expense)/income for the financial year	**–**	**(20.9)**	**–**	**27.7**	**6.8**
Balance at the end of the financial year	**183.0**	**(7.1)**	**57.1**	**49.9**	**282.9**

2012					
Balance at the beginning of the financial year	183.0	(14.0)	57.1	19.7	245.8
Total comprehensive income for the financial year	–	27.8	–	2.5	30.3
Balance at the end of the financial year	183.0	13.8	57.1	22.2	276.1

The accounting policies and notes on pages 15 to 51 form part of these financial statements

Basis of preparation and significant accounting policies

For the year ended 31 December 2013

CIS General Insurance Limited (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 annual report and accounts were authorised for issue by the directors on 16 April 2014.

Statement of compliance

The annual report and accounts have been prepared in accordance with the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which modified the Industrial and Provident Societies Acts 1965 to 2003. The Regulations require CISGIL to prepare its annual report and accounts substantially as though it were a company registered under the Companies Act 2006 (the Act), and apply, with certain exemptions, the provisions of Parts 15 and 16 of the Act.

Basis of preparation

The annual report and accounts have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and IFRS Interpretations Committee (IFRIC) guidance, both of which have been adopted by the European Union (EU). The annual report and accounts 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) in so far as these are compatible with the requirements of IFRS.

The financial information has been prepared under the historic cost convention as modified by the revaluation of available for sale financial assets, derivative contracts, investment properties and certain other financial assets and financial liabilities held at fair value. CISGIL applies the recognition, measurement and disclosure requirements of IFRS in issue that are endorsed by the EU and are effective for accounting periods beginning on or after 1 January 2013.

Standards and interpretations issued and effective

In preparing these annual report and accounts, CISGIL has adopted the following pronouncements during the year that are new or revised:

- IFRS 13 (Fair Value Measurement (2011))

  This new standard defines fair value and also acts as its single authority, dealing primarily with both its measurement and disclosure. It does not require fair value measurements in addition to those already required, or permitted by other IFRSs, and is not intended to establish valuation standards or affect valuation practices outside of financial reporting. The amendment to IFRS 13 has no material impact on the financial information of CISGIL.

- Amended IAS 1 (Presentation of Items of Other Comprehensive Income)

  This amendment's objective is to split the presentation of other comprehensive income into two sections. The different sections will distinguish between items which may or may not be recycled into any future income or expense. The amendment to IAS 1 has no material impact on the financial information of CISGIL.

- Amendments to IFRS 7 (Disclosures Offsetting Financial Assets and Liabilities)

  This amendment requires disclosures to include information that will enable users of an entity's financial information to evaluate the effect of netting arrangements, on the entity's financial position. The amendment to IFRS 7 has no material impact on the financial information of CISGIL.

- Amendments to IAS 32 (Offsetting Financial Assets and Financial Liabilities)

  The current offsetting model in IAS 32 requires an entity to offset a financial asset and financial liability only when the entity currently has a legally enforceable right of set-off and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. This amendment clarifies the position when offsetting financial assets and financial liabilities. The legal right of set-off must be available today and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment will require more extensive disclosures than are currently required. The disclosures focus on quantitative information about recognised financial instruments that are offset in the balance sheet, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

  It becomes effective for accounting periods beginning on or after 1 January 2014. It has been adopted for use within the EU for accounting periods beginning on or after 1 January 2014. The impact of the amendment to IAS 32 is likely to be immaterial to CISGIL.

Other standards and interpretations have been issued but these are not considered to be relevant to CISGIL's operations.

Basis of preparation continued

Going concern

CISGIL's business activities, together with its financial position and the factors likely to affect its future development and performance are set out in the strategic report and the directors' report. In addition, the risk management section on pages 22 to 31 of the annual report and accounts includes CISGIL's objectives, policies and processes for managing its risk, including its exposure to risk. The capital management section on page 32 provides information on CISGIL's capital policies and capital resources. Details of financial instruments are disclosed in note 28.

The assessment of the going concern basis of preparation has been subject to a thorough process involving analysis and discussion by management, the Board Audit Committee and the Board, in line with the governance processes discussed in the risk management sections of these accounts. The analysis covered forecast information for the strategic planning period, stress tests and reverse stress tests, as well as management actions and focused on the profitability, liquidity and capital requirements of CISGIL.

CISGIL delivered a profit for the year of £27.7m. Looking ahead, CISGIL expects to remain profitable.

As can be seen in note 12 on page 37, CISGIL has significant deposits with credit institutions of £207.6m, considerably in excess of the Board's target minimum requirement.

As explained on page 32, there are a number of regulatory capital requirements with which CISGIL must comply. Total regulatory capital was £335.1m at 31 December 2013, which is in excess of all externally imposed capital requirements. The Board also determine a capital requirement over and above the externally imposed measures in line with risk appetite – at the year end the capital position was within risk appetite. Current forecasts show that CISGIL will remain above all regulatory capital requirements for the foreseeable future. CISGIL has also considered a number of stress and reverse stress tests on capital, none of which result in a breach of existing externally imposed capital requirements although some would require management action to remain within the Board's risk appetite. In considering these scenarios management has identified actions that could be taken to improve the capital position.

There are also a number of risks that could affect the future performance and capital position of CISGIL, as a result of the bank separation exercise, notably in respect of the separation activities themselves and the impact on the pension scheme arrangements, over which the directors do not have direct control of all possible mitigating actions.

- Whilst none of the separation costs will be borne by CISGIL, there are operational risks associated with the shared services arrangements in the short term. The separation presents CISGIL with risks around IT, shared assets and service providers. These risks are being actively managed by management and the Board. CISGIL management has utilised the programme team established to lead business separation during the sale process. This team has already given the business a high level of understanding of the requirements for separating CISGIL; and
- As disclosed on page 46, CISGIL has an agreement with CFSMS to pay an appropriate share of the pension contributions relating to staff employed by CFSMS that are assigned to work for CISGIL. As a consequence, CISGIL is exposed to potential future increases in contributions and deficit funding. The scheme was last valued as at 5 April 2013, with revised contribution rates scheduled for June 2014. Management is working closely with the parent company who manage this pension risk. At present CISGIL is not aware of any actions being undertaken by the parent that would have a material adverse impact on CISGIL.

After consideration of the above, and making relevant enquiries of the Group, the directors are satisfied that CISGIL has the resources to continue to meet its liabilities as they fall due and has therefore continued to adopt the going concern basis in preparing the annual report and accounts.

Use of estimates and judgments

The preparation of the annual report and accounts requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the annual report and accounts, are described within the significant accounting policies below, with specific focus on the classification elements of financial instruments (1) and insurance accounting policies (15). Furthermore the valuation of financial instruments is considered a significant judgment as described further in note 28.

Information about estimation uncertainty, that has the most significant effect on the amounts recognised in the annual report and accounts, 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 20 (b). Additionally further reference is made within the risk management section in relation to insurance risk on pages 25 and 26.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these annual report and accounts. The accounting policies are split between non-insurance specific accounting policies and insurance accounting policies. The insurance accounting policies are detailed in accounting policy 15 on pages 20 and 21.

1. Financial instruments (excluding derivatives)

CISGIL classifies its financial assets (excluding derivatives) as either:

- available for sale; or
- financial assets at fair value through income or expense; or
- loans and receivables.

i. 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.

ii. Derecognition of financial assets and financial liabilities

Financial assets are derecognised when they are qualifying transfers and:

- the rights to receive cash flows from the assets have ceased; or
- CISGIL has transferred substantially all the risks and rewards of ownership of the assets.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. 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.

iii. Financial assets designated as available for sale

CISGIL classifies the 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 movements recognised in other comprehensive income as they arise. Where there is evidence of impairment, the extent of any impairment loss is recognised in the income statement. For further information refer to (3(vii)).

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

iv. Financial investments at fair value through income or expense

Investments, other than those in debt securities, are designated as financial assets at fair value through income or expense, where they are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally to key management personnel on that basis. Initial measurement is at fair value, being purchase price upon the date on which CISGIL commits to purchase. Directly attributable transaction costs are expensed immediately on recognition.

Subsequent valuation is at fair value with changes in fair value being recognised in gains less losses within the income statement in the period in which they arise. On disposal, gains or losses (being proceeds less carrying amount) are recognised in gains less losses arising from financial instruments within the income statement. Where there is no active market or the investments are unlisted, the fair values are based on commonly used valuation techniques.

v. 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. For CISGIL this includes insurance premium debt receivables but excludes salvage and subrogation. 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. The amortised cost is the initial amount at recognition less principal repayments and impairment provisions for incurred losses.

vi. Financial liabilities

Financial liabilities are contractual obligations to deliver cash or other financial assets. Financial liabilities are recognised initially at fair value, net of directly attributable transaction costs. Financial liabilities, other than derivatives, are subsequently measured at amortised cost.

Financial liabilities primarily represent borrowed funds. Borrowings are recognised initially at fair value, which equates to issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Significant accounting policies continued

vii. Impairment of financial assets

Assessment

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

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.

Measurement

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

The amount of the loss is the difference between:

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

Impairment of financial assets classified as available for sale

Available for sale assets are assessed at each balance sheet date to see whether there is objective evidence of impairment. In such cases, any impairment losses are recognised by transferring the cumulative loss that has been recognised directly in equity to the income statement.

When a subsequent event causes the amount of impaired loss on available for sale investment securities 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 the income statement. However any further recovery in fair value of an impaired available for sale equity security is recognised directly in equity.

Impairment of financial assets carried at amortised cost

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

A write off is made when all or part of an asset is deemed uncollectable or forgiven after all the possible collection procedures have been completed and the amount of loss has been determined. Write offs are charged against previously established provisions for impairment or directly to the income statement.

Any additional recoveries from borrowers, counterparties or other third parties made in future periods are offset against the write off charge in the income statement once they are received.

Provisions are released at the point when it is deemed that following a subsequent event the risk of loss has reduced to the extent that a provision is no longer required.

viii. Gains less losses arising from financial assets

Gains less losses arising from financial assets represents unrealised fair value movements of assets held at fair value through income or expense as well as realised gains/losses on available for sale assets.

2. Derivative financial instruments

Derivatives are accounted for as trading instruments. Derivatives are initially recognised at fair value on the date upon which the derivative contract is entered into and are subsequently re-measured at their fair value. Any resultant gain or loss is recognised in the income statement.

Embedded derivatives that are not closely related to their host contracts, and meet the definition of a derivative, are separated and fair valued through the income statement.

CISGIL enters into futures derivative contracts as a means of efficient portfolio management.

3. Sale and repurchase arrangements

CISGIL 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 financial instruments at fair value through income or expense in the balance sheet at their bid value and the associated liability is recognised, being the capital amount owing under the repo arrangements.

CISGIL also participates in reverse repo transactions whereby CISGIL buys gilts but is contractually obliged to sell them at a fixed price on a fixed future date. Cash collateral pledged under reverse repo arrangements are classified as deposits with credit institutions within financial investments at fair value through income or expense on the balance sheet as a result of CISGIL's documented risk management policy. CISGIL requires all 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. Collateral is required in the form of cash or gilts.

Significant accounting policies continued

4. Cash and cash equivalents

Cash and cash equivalents comprises cash balances and balances with a maturity of three months or less from the acquisition date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. 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.

5. 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.

6. Impairment of non-financial assets

The carrying value of CISGIL's non-financial assets, excluding deferred tax assets, are reviewed at the balance sheet date to determine whether there is any indication of impairment. If impairment is indicated, the asset's recoverable amount (being the greater of fair value less cost to sell and value in use is 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 an increase 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.

7. 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.

8. 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 policy (15i) on page 20.

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 income or expense is recognised within investment income in the income statement as it accrues on an effective interest basis.

Fee and commission income

Fees and commission receivable mainly relates to sundry fee/commission income from CISGIL's aggregator partner and is earned over the lifetime of the related policy or when services are provided, as deemed appropriate. All other fee and commission income is recognised on an accruals basis.

9. Fee and commission expenses

Fees and commission payable mainly relates to commission payable to broker intermediaries that is incurred over the lifetime of the related policy. All other fee and commission payable is recognised on an accruals basis as the service is provided.

Significant accounting policies continued

10. Income tax

Tax on the income statement 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 the statement of comprehensive income.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation 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.

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 reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

11. Foreign currencies

The functional and presentational currency for CISGIL is sterling. All transactions conducted by CISGIL are in sterling. All amounts presented are stated in pound sterling and millions, unless stated otherwise.

12. Significant items

Items which are material by both size and nature (ie outside 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 investment and integration costs.

13. Profit based payments to members of The Co-operative Group

Members of The Co-operative Group may receive a dividend based on their transactions with The Co-operative Group and its subsidiaries, including CISGIL. Once these profit based payments are approved by the Co-operative Group Limited, CISGIL is recharged an amount which reflects its eligible products' contribution to the overall Co-operative Group member dividend. There were no such payments in the year.

14. Dividends

Dividends are only recognised in the annual report and accounts by CISGIL once they have been approved by the shareholders in a general meeting.

15. Insurance accounting policies

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.

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 written premiums 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 written premiums:

- 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.

Gross written premium (whether paid in advance or by instalments) is earned evenly over the period of the contract (usually twelve months). The treatment of outward reinsurance premiums is similar to gross premiums written.

Significant accounting policies continued

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 using the daily pro rata basis.

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

iii. Claims incurred

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

iv. Claims outstanding

Claims outstanding comprises 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').

Aggregate claims provisions, which include attributable claims handling expenses, 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 in the notes to the annual report and accounts including the claims development tables.

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.

In accordance with accounting regulations, discounting of outstanding claims is permitted in certain circumstances. For statutory accounts the outstanding reserves are discounted in respect of periodical payments and a portion of liability type claims from the electric industry ('EIROS') for which separate assets are held of appropriate term and nature.

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 less deferred acquisition costs carried forward for those contracts.

Unexpired risk provision is calculated for each category of business. Where categories of business are managed together a combined calculation is performed. Surpluses and deficits within each category are offset within the calculation. The provision is determined after taking account of future investment return arising on investments supporting the unearned premium provision and unexpired risk provision.

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 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 written premiums 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. Premiums, claims and receivables are presented on a gross basis in the income statement and balance sheet.

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.

Risk management

For the year ended 31 December 2013

All amounts are stated in £m unless otherwise indicated

CIS General Insurance Limited (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.

Developments during 2013

Prior to 2013 CISGIL's risk management framework was integrated with The Co-operative Banking Group Limited (the Banking Group). During 2013 CISGIL established its own risk management framework appropriate to a stand-alone general insurer. As a result, over the course of 2013 CISGIL:

- revised its risk classification and established a comprehensive risk register;
- revised its risk appetite and limits;
- established its own suite of risk policies and control standards;
- created a stand-alone 2nd Line Risk function; and
- revised and enhanced its governance structure and delegated authority framework.

The following section summarises the risk management structure that was in place at the end of 2013.

Our approach to risk management

CISGIL operates a three lines of defence governance model to ensure appropriate responsibility and accountability is allocated to the management, reporting and escalation of risks.

Business management is the first line of defence. It is responsible for implementing and operating processes to identify, measure, manage, monitor and report risks. This includes those risks deriving from the development of new products, processes or other business change. It manages the risks that reside within the business areas on a day-to-day basis and implements effective monitoring and control processes to ensure that the business risk profile is understood and maintained within Board defined risk appetite.

The Chief Risk Officer and 2nd Line Risk function are the second line of defence. They own the risk management framework, oversee and challenge its implementation and operation by the first line of defence, and consider current and emerging risks across CISGIL. They also provide review and challenge of the delegated authority framework and oversee appropriate escalation of breaches, mitigating actions and reporting to the Executive Risk Committee and Board.

Internal audit act as the third line of defence. They independently challenge the overall management of the framework and provide assurance to the Board Audit Committee and senior management on the adequacy of both the first and second lines. The Chair of the Board Audit Committee oversees the internal audit function and risk-based audit plan. CISGIL has contracts in place with external consultants to provide internal audit capability.

Risk management structure

The Board is responsible for approving the general insurance 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 in place.

CISGIL has developed and implemented a governance and organisation structure, which supports the Board. The Board has established risk and audit sub-committees, and senior management committees, to:

- oversee the risk management process;
- identify the key risks facing the business; and
- assess the effectiveness of planned management actions.

Specific Board authority has been delegated to the Board sub-committees and the Managing Director, Co-operative Banking Group who may, in turn, delegate elements of these discretions to appropriate members of the senior management team.

Risk management committees

The CIS General Insurance Board (Board)

The responsibilities of the Board include:

- setting the overall Risk Strategy;
- approving the design and implementation of risk management approaches, including the Risk Management Framework Policy and the Risk Appetite Statements and metrics that underpin them;
- delegating authority for oversight of the risk management framework, systems and high-level limits to the Board Risk Committee;
- delegating authority for cascading the setting and approval of the more granular risk limits and tolerances to the Managing Director, Co-operative Banking Group;
- using the output of the semi-annual certification process, to approve the effectiveness of the Risk Management Framework with support from internal audit through their risk-based review programme; and
- reviewing and challenging Board Risk Committee reports on the effectiveness of the risk management framework and systems.

Risk management committees continued

CISGIL Board Risk Committee (BRC)

BRC responsibilities include:

- providing oversight and advice to the Board on current and potential risks and the overall risk framework including risk appetite, risk tolerance and risk management strategies;
- reviewing and challenging the design of the Risk Management Framework, Risk Appetite limits and tolerances and recommending to the Board for approval;
- reviewing and challenging the implementation of the Risk Management Framework through the semi-annual certification process and reviewing the quality and effectiveness of the Risk Management Framework, systems and function;
- reviewing and challenging internal controls and process of risk management including the coverage of the risk taxonomy;
- monitoring the organisation's performance and compliance against high-level risk appetite limits and tolerances;
- in co-operation with the Board Audit Committee, monitoring identified risk control failings and weaknesses and management actions taken to resolve them; and
- reporting on the effectiveness of the Risk Management Framework and systems to the Board.

CISGIL Board Audit Committee (BAC)

BAC responsibilities include:

- review and oversight of financial statements and annual reports before submission to the Board;
- assisting the Board in carrying out its responsibilities relating to internal control, including control breaches and remediation;
- exercising oversight of identified risk control framework failings and weaknesses as well as management actions taken to resolve them; and
- oversight of internal and external assurance and audit.

CISGIL Executive Committee (ExCo)

The ExCo responsibilities include:

- overseeing the establishment and maintenance of appropriate risk management systems and controls in line with the Board agreed Risk Management Framework;
- supporting the Managing Director, Co-operative Banking Group in developing, reviewing and approving detailed risk appetite limits and tolerances as delegated by the Board;
- ensuring the implementation of the risk strategy set by the Board so as to deliver an effective risk management environment for CISGIL.

CISGIL Executive Audit Committee (EAC)

The EAC responsibilities include ensuring the timely issue resolution and decision making governance on the results of audits relating to CISGIL from regulators, external auditors and internal audit.

CISGIL Executive Risk Committee (ERC)

The ERC responsibilities include:

- driving the detailed implementation of the CISGIL Risk Management Framework approved by the Board;
- providing a mechanism for ensuring that the CISGIL-wide risk and capital management requirements, developments, and processes are in place;
- supporting the Managing Director, Co-operative Banking Group in developing the Risk Strategy, Risk Management Framework, and Risk Appetite Statement and recommending to the Board Risk Committee for review, challenge and recommendation to the Board for approval;
- supporting the Managing Director, Co-operative Banking Group in approving risk policies, proposing risk appetite limits and tolerances to the Board Risk Committee for review, challenge and recommendation to the Board for approval;
- reviewing approaches to stress testing, risk management reporting and governance, and referring them to the Board Risk Committee for review, challenge and recommendation for approval by the Board;
- supporting the Managing Director, Co-operative Banking Group in semi-annually reviewing the effectiveness of the Risk Management Framework, systems and function and providing a report to the Board Risk Committee;
- on a periodic basis, assessing the performance of the Risk Management Framework; and
- monitoring the business's risk profile against the agreed limits and tolerances and reporting on these to the Board Risk Committee.

Senior Management Committees

CISGIL has other committees that advise and support the Managing Director, Co-operative Banking Group and members of the senior management team in carrying out their responsibilities.

Remuneration Committee

Remuneration is authorised by a combined committee covering CISGIL and other Banking Group entities.

For the year ended 31 December 2013

All amounts are stated in £m unless otherwise indicated

Principal risks

The following are considered to be the principal risks facing CISGIL:

	Risk Type	Definition	Page
A	**Strategic and business risks***	The risk to earnings and capital that may arise as a result of strategic/management decisions or business choices or lack of responsiveness to changes in the business environment	24
B	**Reputation risk***	The risk associated with an issue which could in some way be damaging to the brand of the organisation among all or any stakeholders	24
C	**Conduct risk***	The risk that CISGIL's behaviours, offerings or interactions will result in unfair outcomes for customers	24
D	**Regulatory risk***	The risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK and EU regulatory requirements	25
E	**Insurance risk**	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities	25
F	**Market risk**	The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers e.g. interest rates, market prices of assets and liabilities	26
G	**Operational risk***	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events	28
H	**Liquidity risk**	The current and prospective risk to earnings or capital arising from CISGIL's inability to meet its obligations when they come due without incurring unacceptable losses	28
I	**Credit risk**	The risk to earnings and capital arising from a counterparty's failure to meet their legal and contractual obligations	30
J	**Pension risk***	The risk to capital and company funds from exposure to scheme liabilities (to the extent liabilities are not met by scheme assets) and risks inherent in the valuation of scheme liabilities and assets	31

Risks marked with an asterisk (*) above are termed unaudited as they are outside the scope of the external audit.

For each of the principal risks, CISGIL Board has approved risk policies and risk appetite statements with underpinning metrics. The metrics have approved limits within which business operations are to be conducted, along with thresholds to give early warning of emerging issues.

CISGIL is exposed to Group risks as a result of being part of The Co-operative Group (the Group). CISGIL does not classify Group risks as a risk-type and instead captures them within other risk-types. In particular, strategic and business risks include impacts of the Group's strategy upon CISGIL, reputation risk includes impacts of reputational issues arising elsewhere in the Group, operational risk includes risks from services shared with other parts of the Group and pension risk includes risks with CISGIL's contributions to the Group pension scheme.

A) Strategic and business risks (unaudited)

Strategic and business risks to earnings and capital arise as a result of strategic/management decisions or business choices or lack of responsiveness to changes in the business environment. Specific strategic and business risks, and management actions, are regularly reported and reviewed by the ERC and the Board. CISGIL's objective in managing these risks is to maintain a sufficient capital buffer in excess of minimum regulatory capital requirements to cover projected risks and maintain market confidence, and obtain a sufficient, stable and sustainable return on equity. The Board have defined detailed metrics and limits underpinning these objectives, which are measured, monitored and reported regularly to the ERC and the Board.

B) Reputation risk (unaudited)

Reputation risk is defined as the risk associated with an issue which could in some way be damaging to the brand of CISGIL either through its strategic decisions, business performance, an operational failure or external perception. CISGIL's objective is to maintain a strong reputation in line with our values and principles through robust operational standards, continual monitoring of our corporate reputation and brand, commitment to our Social Goals Strategy and proactive public relations.

As part of the assessment and control of this risk, our business performance and risk profile across all of our risk themes are closely monitored and reviewed. CISGIL proactively monitors and manages media, public and customer opinion and works closely with external rating agencies to ensure fair and balanced representation. This approach helps maintain member, customer and market confidence. This risk is regularly monitored and reported to the Conduct and Operational Risk Committee, ERC and the Board.

Reputational issues with the Banking Group during 2013 have impacted upon the reputation of CISGIL.

C) Conduct risk (unaudited)

Conduct risk is the risk that CISGIL's behaviours, offerings or interactions will result in unfair outcomes for customers. Accordingly, conduct risk may arise from any aspect of the way a business is conducted, the sole test being whether the outcome is an unfair one for customers. Conduct risk is a key area of focus across the financial services industry, with increasing scrutiny from the Financial Conduct Authority. CISGIL's objective is to ensure our conduct and treatment of customers and the quality of our customer experience is maintained through the application of systems and controls in conjunction with ongoing oversight and monitoring from risk functions.

CISGIL mitigates and prevents emerging conduct risk through established systems and controls including ongoing oversight and monitoring from risk functions. A full review of all products was completed in 2013, and a rigorous assessment is carried out for all new products and changes. Conduct risks are reported through management structures and regularly monitored and reported to the Conduct and Operational Risk Committee, ERC and the Board.

All amounts are stated in £m unless otherwise indicated

Principal risks continued

D) Regulatory risk (unaudited)

Regulatory risk is the risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK and EU regulatory requirements. CISGIL's objective is to maintain a robust process to ensure that all regulatory expectations and requirements are met within agreed or mandated timeframes, by promoting and embedding a compliance culture and developing positive regulatory relationships.

Regulatory risks are reported through management structures and regularly monitored and reported to the Conduct and Operational Risk Committee, ERC and the Board.

E) Insurance risk

Insurance risk comprises risks that arise in respect of claims that have already occurred and for which reserves are already held (reserving risk) and of claims that are yet to occur (underwriting risk). Underwriting risk includes risks from claims arising from natural or man-made catastrophe events.

The major classes of general insurance business written are motor and property, together with some commercial liability, pecuniary loss, pet insurance and personal accident. CISGIL underwrites motor and home personal lines business written directly or through brokers, and therefore bears the insurance risk on these policies. Most commercial business is underwritten by Aviva with CISGIL receiving commission and not bearing the insurance risk. A small number of commercial accounts are underwritten by CISGIL and 100% reinsured with Aviva, due to which CISGIL bears the ultimate insurance risk although the risk of Aviva failing to meet its commitments is minimal. CISGIL bears the insurance risk for pet insurance written historically but new pet business is underwritten by Allianz. Almost all general insurance policies are written in the UK market covering risks over a 12 month duration.

Motor cover is principally in respect of private vehicles and commercial vehicles, with limited fleet business. CISGIL underwrites and bears the insurance risk for private vehicles. Commercial vehicle cover generally refers to small businesses with a single vehicle. This has been underwritten by CISGIL historically but is currently in the process of being migrated to an external broker Bollington, who are placing the policies with other insurers. Fleet motor cover is underwritten by Aviva. Principal risks under motor policies where CISGIL bears the insurance risks are bodily injury to third parties, accidental damage to property including policyholders' and third parties' vehicles, and theft of or from policyholders' vehicles. 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.

Property cover is primarily residential household, which is underwritten by CISGIL, with commercial property business being 100% reinsured with Aviva. Principal risks under property policies where CISGIL bears the insurance risks are damage from storm and flood, fire, escape of water and subsidence and theft of or accidental damage to contents.

CISGIL has entered into an indemnification agreement with Royal London (CIS) Limited, formerly Co-operative Insurance Society Limited (CISL), now a subsidiary of Royal London Group, to assume financial responsibility for the run off of general insurance business formerly written by CISL. In return, CISGIL received a premium in 2006, settled by transfer of assets, equivalent to the net technical liabilities of this business included in CISL's annual report and accounts at 2005 year end. This exposes CISGIL to the risk of these assets being insufficient to cover the claims arising from this business, although this risk is diminishing over time. A Part VII transfer from CISL to CISGIL of this business in run off took place on 31 March 2014. This transfer will not affect how CISGIL manages the risks in its business.

Objectives and strategy

CISGIL's objectives in managing general insurance risk are:

- to achieve acceptable returns by ensuring that insurance risks are carefully selected in accordance with risk appetite, underwritten in accordance with risk strategy and priced to reflect the underlying risk;
- reserve risk volatility is minimised through robust reserving and modelling approaches; and
- catastrophe risk is mitigated through the use of appropriate reinsurance arrangements.

Insurance risk is managed through the underwriting strategy, reinsurance arrangements, proactive claims handling and the claims provisioning process. The objective of the underwriting strategy is to ensure that the underwritten risks are 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 is determined in accordance with the risk appetite of the business as further described below.

The overriding objective in claims handling is to ensure that 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 weather validation and fraud databases, and the use of claims specialists. The basis for assessing claims provisions is set out in note 20.

The nature of insurance contracts is that the obligations of the insurer are uncertain as to the timing or quantum of liabilities arising from contracts. CISGIL takes all reasonable steps to ensure that it has information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. CISGIL manage this risk through the Reserving Committee which formally reviews claims reserves on a quarterly basis.

Principal risks continued

Reinsurance

Part of the CISGIL insurance risk strategy includes a reinsurance programme to reduce its losses to large exposures. There are two major reinsurance programmes in place;

- catastrophe excess of loss cover to restrict losses from a single weather event such as flood or storm; and
- individual excess of loss cover to restrict losses from individual large claims, particularly large bodily injury claims on the motor book.

The appropriate level of reinsurance is determined by management and approved by the Board. Management relies on outputs from CISGIL's capital model. The choice of reinsurance optimises the risk/reward trade off and ensures an objective, risk-based approach to decision making which makes efficient use of capital.

F) Market risk

Market risk is the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers such as interest rates and market prices of assets and liabilities.

CISGIL invests primarily in high-quality fixed and variable interest bonds issued by corporations ('corporate bonds') and in short-term sterling deposits with financial institutions ('cash'). The value of, or income from, assets held is subject to volatility from changes in both market interest-rates and additional spreads related to the specific credit-worthiness of the issuer ('credit-spreads'). Proceeds from maturing investments are also subject to risk over the future return on reinvestment.

CISGIL is also exposed to market interest-rates through:

- the discounted present value placed upon future claims. All future claims are discounted for economic assessment purposes including the Individual Capital Assessment (ICA). However, IFRS short term insurance reserves (normally less than five years) are not directly affected by market interest-rates as they are undiscounted; and
- £65.0m of issued subordinated debt, from a total of £85.0m, which pays interest at varying margins above three month LIBOR. The remaining £20.0m pays a fixed coupon of 10% per annum.

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 direct exposure to currency risk.

In summary, the principal market risks that CISGIL is exposed to are:

- changes in interest-rates, which impact both asset and liability values, and investment income;
- movements in credit-spreads which impact the market value of corporate bonds; and
- default or delay in payments due upon corporate bonds or cash.

Objective and strategy

CISGIL's objective is to achieve acceptable returns through the use of highly rated government and corporate bonds while minimising volatility through minimal exposure to equities and other volatile instruments. To enhance certainty over the investment return generated from these assets, management practice is generally to maintain holdings to maturity.

CISGIL determines its strategic asset allocation through considering the risk/reward trade off and the impact upon capital adequacy and solvency of the overall company, which relies on outputs from CISGIL's capital model. CISGIL's investments are managed by Royal London Asset Management (CIS) Limited (RLAM) with whom CISGIL have an agreed investment mandate with limits for exposure by credit-rating, maximum terms and maximum exposure to individual counterparties. The Investment Committee oversees RLAM, monitoring and managing asset exposures against the strategic asset allocation and approved limits.

CISGIL manages credit-spread and default risks from corporate bonds through the limits for exposure to credit-ratings and individual counterparties. Other risk mitigation techniques employed to manage exposure to counterparty default include transacting only through a diversified range of authorised counterparties and the requirement for certain transactions (including cash, investment and trading in futures, stock lending and gilt repo transactions) to be fully collateralised on a daily basis. The Investment Committee oversees the monitoring and management of these risks and exposures against limits.

Interest-rate risk is managed through investing in fixed interest securities with a similar duration profile to the liabilities under the general insurance contracts. 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). Index-linked investments and other specific debt securities are used to match periodical payment liabilities and provisions relating to asbestos exposure within the electric industry ('EIROS' claims) by amount and duration. In order to do this, an expert opinion on life expectancy is used along with an expectation of long term average earnings.

Principal risks continued

Mean durations are:

	2013	2012
Insurance liabilities	**3.20 years**	2.99 years
Financial assets	**2.53 years**	1.99 years

	Amount (£m)	Duration
Periodical payments		
Insurance liabilities	**38.6**	**17.0 years**
Financial assets	**40.9**	**16.1 years**
EIROS claims		
Insurance liabilities	**2.4**	**10.4 years**
Financial assets	**2.6**	**13.7 years**

Sensitivity analysis

The most significant aspect of market risk to which CISGIL is exposed is changes in credit-spreads upon corporate bonds. The resulting movements in the market values of corporate bonds directly affect CISGIL's internal economic assessment of solvency, including the Individual Capital Assessment (ICA). As CISGIL has adopted a policy of recognising most investment assets on an 'available for sale' basis, movements in market values of these assets are recognised in other comprehensive income and so have limited impact upon reported IFRS profits.

An increase of 100 basis points in credit-spreads would reduce the carrying value of CISGIL's assets at the end of the financial year by £17.9m (2012: £20.6m). This would reduce the value placed upon these assets in CISGIL's internal economic assessment of solvency, including the ICA, by the same amount. On an IFRS basis it would result in a reduction in other comprehensive income of £13.7m net of tax (2012: £15.6m). The impact of a decrease of 100 basis points in credit-spreads would have similar but opposite effects.

The method used for this calculation increases the implied redemption yield by 100 basis points and uses this modified yield to calculate the revised market value of each bond in the portfolio. The calculation assumes that a change in credit-spreads would have an immediate and equal impact at all points on the yield curve and upon all corporate bonds regardless of their credit-rating. The probability of this credit-spread change over one year is assessed as 24% (2012: 19%) using the CISGIL capital model.

CISGIL has £65.0m (2012: £65.0m) of issued subordinated debt at varying margins above three month LIBOR. The effect on profit of a 100 basis point movement in three month LIBOR would be £0.5m per annum net of tax (2012: £0.5m). Additionally, CISGIL has a further £20.0m of subordinated debt with a fixed coupon of 10% which is not sensitive to a change in LIBOR.

All amounts are stated in £m unless otherwise indicated

Principal risks continued

G) Operational risk (unaudited)

Operational risk includes internal and external fraud, loss or theft of confidential customer information, loss of key personnel, system capacity issues or programme failure and external events over which CISGIL has limited controls, such as terrorist attack. CISGIL's objective is to minimise operational risk through the implementation of a robust control environment which minimises the potential for loss as a result of the failure of processes, people, technology and due to external events.

CISGIL has defined the following sub-categories within operational risk, which represent the major areas of operational risk exposure. Each sub-category has its own policy, approved by the ERC, supported by underlying control standards:

- financial reporting risk;
- model risk;
- technology risk;
- physical assets and security;
- third party supplier risk;
- change risk;
- product approval risk;
- information risk;
- financial crime risk;
- people risk;
- legal risk;
- business continuity planning; and
- anti-money laundering and counter terrorist financing.

Operational risks are identified, managed and mitigated through ongoing risk management practices including risk assessments, formal control procedures and contingency planning. Operational risks and key controls are regularly reviewed by the Conduct and Operational Risk Committee. Significant operational risks are reported to the ERC and the Board.

A programme is underway to separate CISGIL's IT from an infrastructure that is currently shared with other companies in the Banking Group, the Co-operative Bank (the Bank) and Royal London Group. Business continuity arrangements will continue to be reviewed and refreshed to take account of the changes in external environment and operating model due to the Bank separation.

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

H) Liquidity risk

Liquidity risk is the current and prospective risk to earnings or capital arising from an inability to meet obligations when they come due without incurring unacceptable losses. CISGIL's objective is to meet all funding obligations as they fall due primarily through the use of highly liquid investment instruments.

The Board's risk appetite is that liquid assets should be at least equal to 20% of the ultimate cost of a 1-in-100 year windstorm loss before reinsurance recoveries. The ultimate cost is calculated based upon the catastrophe component of CISGIL's capital model. The latest model assesses the ultimate cost of a 1-in-100 year windstorm as £147.0m (2012: £158.0m), giving a minimum requirement for £29.4m (2012: £31.6m) of liquid assets against actual liquid assets of £763.6m (2012: £773.0m).

Liquid assets are considered to be:

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

All amounts are stated in £m unless otherwise indicated

Principal risks continued

The level of cash and other assets held are monitored regularly and managed through the Investment Committee, with oversight by the ERC and the Board. This includes monthly reporting of liquid assets against risk appetite limits.

In addition, CISGIL has access to overnight borrowing facilities with the Bank. Overnight borrowings are subject to the Bank's regulatory exposure limits for related counterparties. These borrowings are on normal commercial terms and represent an unsecured, uncollateralised obligation of CISGIL.

The following table indicates the time profile of undiscounted cash flows arising from financial liabilities (based upon contractual maturity), and the discounted cash flows arising from insurance liabilities (based upon estimated timing of amounts recognised in the balance sheet). Included in the analysis on insurance contract liabilities below is £40.0m (2012: £35.8m) of discounted reserves relating to PPO and EIROS. Further details are included in note 20.

	Carrying value	**Gross nominal out flow**	**Up to 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**
As at 31 December 2013								
Insurance contract liabilities	**866.3**	**866.3**	**470.2**	**132.2**	**66.3**	**42.0**	**26.5**	**129.1**
Financial liabilities at amortised cost:								
Subordinated debt	**85.0**	**92.3**	**33.0**	**2.5**	**2.5**	**54.3**	**–**	**–**
Insurance and other payables	**17.9**	**17.9**	**17.9**	**–**	**–**	**–**	**–**	**–**
Cash and cash equivalents	**8.9**	**8.9**	**8.9**	**–**	**–**	**–**	**–**	**–**
	978.1	**985.4**	**530.0**	**134.7**	**68.8**	**96.3**	**26.5**	**129.1**
Other liabilities	**10.6**							
Total recognised liabilities	**988.7**							

	Carrying value	Gross nominal out flow	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
As at 31 December 2012								
Insurance contract liabilities	1,028.7	1,028.7	560.1	132.9	86.5	54.0	43.0	152.2
Financial liabilities at amortised cost:								
Subordinated debt	85.0	94.9	33.0	2.5	2.5	56.9	–	–
Other reinsurance liabilities	2.3	2.3	2.3	–	–	–	–	–
Insurance and other payables	21.9	21.9	21.9	–	–	–	–	–
Cash and cash equivalents	12.5	12.5	12.5	–	–	–	–	–
	1,150.4	1,160.3	629.8	135.4	89.0	110.9	43.0	152.2
Other liabilities	10.4							
Total recognised liabilities	1,160.8							

All amounts are stated in £m unless otherwise indicated

Principal risks continued

I) Credit risk

Credit risk is the risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations. CISGIL does not aim to earn a return from credit risk hence its appetite for credit risk is very low. Potential losses arising from credit risk are minimised by the use of high quality reinsurers and highly rated investments.

CISGIL's principal credit risk exposures are as follows:

- default upon cash, being deposits with approved financial institutions;
- movements in credit-spreads which impact the market value of corporate bonds, and default or delay in payments due upon corporate bonds or cash;
- reinsurance counterparties failing to meet financial obligations or entering into restructuring arrangements that may adversely affect reinsurance recoveries;
- default or delay in repayment upon loans and receivables; and
- default or delay in repayment of insurance receivables and other assets.

CISGIL manages credit risks associated with cash and corporate bonds as part of market risk. See market risk section above for details.

Where reinsurance is used to manage insurance risk, there is a risk that the reinsurer fails to meet its obligations in the event of a claim. CISGIL places limits over exposure to a single reinsurance counterparty, or counterparty group, based upon their credit-worthiness. These limits apply when reinsurance is initially placed, usually annually, and then regularly monitored and managed by the Investment Committee. Where concern exists over reinsurer credit quality, watch lists are maintained and actively managed.

Loans and receivables of £50.0m were repaid from the Co-operative Group Limited during 2013.

Insurance receivable and other assets are primarily premium debtors, with an element of salvage and subrogation recoveries and some accrued interest.

At the balance sheet date there were no significant concentrations of credit risk. The table below provides an analysis at the balance sheet date of the credit rating of those assets subject to credit risk, and excludes any assets that were classed as impaired at that date. CISGIL's policy for making provisions for possible impairment is described within the accounting policy section on page 19. Credit ratings are determined by taking an average of ratings provided by Moody's Investors Service, Standard & Poor's and Fitch.

As at 31 December 2013	**AAA**	**AA**	**A**	**BBB and below**	**Not rated**	**Total**
Financial assets at fair value through income or expense:						
Deposits with approved credit institutions (fixed rate)	**–**	**–**	**207.6**	**–**	**–**	**207.6**
Available for sale assets:						
Listed debt (fixed rate)	**73.3**	**179.4**	**429.6**	**37.7**	**–**	**720.0**
Listed debt (variable rate)	**–**	**–**	**31.9**	**11.5**	**–**	**43.4**
Reinsurance assets	**–**	**25.0**	**28.9**	**–**	**2.9**	**56.8**
Insurance receivables and other assets	**1.1**	**1.6**	**7.8**	**0.4**	**197.6**	**208.5**
	74.4	**206.0**	**705.8**	**49.6**	**200.5**	**1,236.3**
Assets not subject to credit risk						**35.3**
						1,271.6

As at 31 December 2012	AAA	AA	A	BBB and below	Not rated	Total
Financial assets at fair value through income or expense:						
Deposits with approved credit institutions (fixed rate)	–	–	314.0	–	–	314.0
Available for sale assets:						
Listed debt (fixed rate)	27.8	76.8	494.5	110.5	26.9	736.5
Listed debt (variable rate)	–	–	33.5	3.5	–	37.0
Loans and receivables at amortised cost	–	–	–	–	50.0	50.0
Reinsurance assets	–	15.6	21.9	–	7.3	44.8
Insurance receivables and other assets	0.2	1.9	8.9	2.9	210.8	224.7
	28.0	94.3	872.8	116.9	295.0	1,407.0
Assets not subject to credit risk						29.9
						1,436.9

All amounts are stated in £m unless otherwise indicated

Principal risks continued

The maximum exposure to credit risk, before making allowance for collateral held, is represented by the carrying value of each financial asset in the table. Collateral of £178.8m (2012: £ 281.8m) is held as security against a reverse repo with balance of £180.0m as at 31 December 2013 (2012: £275.0m). Cash collateral pledged sits within deposits with approved credit institutions within financial investments at fair value through income or expense on the balance sheet as a result of CISGIL's documented risk management policy.

Eurozone risk

CISGIL has no direct exposure to the sovereign debt of European countries. There is currently limited detailed knowledge of indirect exposure to European sovereign debt. Indirect exposure is managed as knowledge of an institution's direct exposure is made public. At this point, if the exposure is considered to be in excess of the risk appetite, action will be taken to reduce the risk through the sale of the relevant holdings. Indirect exposure to European countries is also considered as part of the reinsurance placement. The asset profile of the prospective companies is analysed and those which are over exposed are not included in placement of the programme.

The table below shows exposure to European countries arising from corporate bonds. CISGIL has no exposures to European countries as a result of repo arrangements.

As at 31 December 2013	Up to 1 year	1 to 5 years	5 to 10 years	Total
France	–	**7.2**	–	**7.2**
Germany	–	**43.0**	**28.3**	**71.3**
Netherlands	–	**9.4**	–	**9.4**
Spain	–	**29.3**	–	**29.3**
Sweden	–	**29.9**	**34.4**	**64.3**
Switzerland	–	–	–	–
	–	**118.8**	**62.7**	**181.5**

As at 31 December 2012	Up to 1 year	1 to 5 years	5 to 10 years	Total
France	–	7.3	25.7	33.0
Germany	–	–	8.1	8.1
Norway	–	10.8	–	10.8
Spain	19.4	5.9	–	25.3
Sweden	–	60.0	12.9	72.9
Switzerland	–	7.3	–	7.3
	19.4	91.3	46.7	157.4

J) Pension risk (unaudited)

Pension risk is defined as the risk to capital and company funds from exposure to scheme liabilities and risks inherent in the valuation of scheme liabilities and assets.

CISGIL has an agreement to pay pension contributions relating to staff employed by CFS Management Services Limited (CFSMS) that are assigned to work for CISGIL. This means that CISGIL is exposed to pension risk through The Co-operative Group pension scheme (PACE). The PACE trustee, in consultation with The Co-operative Group, is responsible for the risk management arrangements for PACE, agreeing suitable contribution rates, investment strategy and for taking professional advice as appropriate. The scheme is managed at The Co-operative Group level.

CISGIL is exposed to potential future increases in required contributions and capital set aside for pension risk. The impact of any potential changes to contributions is assessed under CISGIL's risk management framework and internal economic assessment of solvency, including the ICA. CISGIL actively engages with The Co-operative Group with the aim that the volatility in the pension funding position is appropriately managed through continuous monitoring, adjustments to scheme contributions, engagement of external advisors and review of investment and pension strategies.

Capital management

For the year ended 31 December 2013

All amounts are stated in £m unless otherwise indicated

Objectives when managing capital

For regulatory solvency capital purposes, CISGIL defines capital as share capital and reserves (after regulatory capital deductions and equalisation provisions) plus subordinated debt. The strategy in respect of capital management is to ensure that the following objectives are met:

- it has sufficient capital to meet all regulatory requirements;
- it has sufficient capital to support all the risks in the business, over the internally agreed time horizon and to the internally agreed level of confidence, in order to protect policyholders and meet the Board's risk appetite; and
- subject to the above objectives being met, it makes the required post tax return on equity.

Required capital

CISGIL is required to hold regulatory capital for its general insurance business in compliance with the rules issued by the Prudential Regulation Authority (PRA).

a) Regulatory required capital

CISGIL is required to hold capital at the greatest of three measures, namely the Individual Capital Assessment (ICA), the Individual Capital Guidance (ICG) and the Minimum Capital Requirement (MCR). Each of these measures is further described below:

i. ICA: In accordance with the Prudential Sourcebook for Insurers (INSPRU), each firm must have internal models to calculate its own capital requirements. The ICA is an economic risk-based assessment using CISGIL's capital model. 2nd Line Risk has responsibility for the overall design and governance of the capital model, which is developed and operated within the actuarial team. Capital model methodology and results are reviewed and approved by the Model Governance Committee, ERC and the Board. Outputs from the capital model are used in areas such as investment and reinsurance decisions, determining the risk in the business plans with regard to risk appetite and return on capital in pricing.

ii. ICG: The PRA reviews the ICA calculation periodically to assess whether it believes the models and controls surrounding the models are adequate and, if it deems it necessary, an 'add-on' is applied to reflect risks that were inadequately captured. The total ICA plus 'add-on' is known as the ICG.

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

CISGIL has complied with all externally imposed solvency capital requirements throughout the period. CISGIL ensured continuous solvency through weekly, or when appropriate daily, monitoring. Monthly reports were provided to the Executive Risk Committee and Board.

The new solvency framework for insurers being developed by the EU, referred to as 'Solvency II', is intended to achieve greater harmonisation of approach across EU member states to assessing capital resources and requirements. Solvency II is expected to come into force on 1 January 2016. Under Solvency II, the Solvency Capital Requirement (SCR) will replace the ICA and ICG, and the MCR will be re-defined. CISGIL is actively progressing with activities to meet the required standards and with preparations to apply to the PRA for approval to use CISGIL's internal capital model to calculate the SCR.

b) Internal required capital

CISGIL has articulated a risk appetite which defines the confidence level with which the Board wants to meet the above requirements. This appetite in turn is used to calculate the additional capital that the Board mandate is held over and above the regulatory required capital.

c) Capital composition

CISGIL regulatory MCR capital resources comprise total shareholders' equity and subordinated debt, excluding inadmissible assets and equalisation provisions recognised in equity.

	2013	2012
Capital and reserves per the financial statements	**282.9**	276.1
Subordinated debt	**85.0**	85.0
Inadmissible assets	**(1.8)**	(6.2)
Statutory claims equalisation reserve	**(30.1)**	(29.5)
Discounting on technical provisions	**(0.9)**	(1.4)
Regulatory capital	**335.1**	324.0

Notes to the annual report and accounts

All amounts are stated in £m unless otherwise indicated

1. Segmental analysis

The business segments of CIS General Insurance Limited (CISGIL) are presented in line with the management information as reported to the Managing Director, Co-operative Banking Group, the Chief Operating Decision Maker (CODM).

CISGIL evaluates the performance of operating segments on the basis of the combined operating ratio, being the ratio of combined costs (operating expenses, claims and commission, net of other income) to net earned premiums. Overall CISGIL performance is evaluated on the basis of profit or loss from operations before tax attributable to shareholders, adjusted for non-operating items outside the control of the management, including variances in investment performance resulting from significant changes in external market conditions.

There is no geographic segmental reporting as all business is conducted in the UK. Revenues are attributed to the segments in which they are generated.

Segmental results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies.

Business segments

CISGIL comprises the following segments:

- **Motor** – Private motor car and motor cycle, individual commercial vehicles.
- **Home** – Domestic buildings, contents and personal possessions.
- **Other** – Commercial risks covering property, liability, financial loss, pet and motor fleet. Other minor personal risks, run off of inwards reinsurance liabilities, Financial Services Compensation Scheme levies and finance costs.

Segmented income statement for the year ended 31 December 2013	**Motor**	**Home**	**Other**	**Total**
Net earned premiums	**314.6**	**158.8**	**3.1**	**476.5**
Net claims incurred	**(256.1)**	**(64.1)**	**(10.6)**	**(330.8)**
Net commission expenses	**(1.5)**	**(8.3)**	**3.3**	**(6.5)**
Operating expenses	**(77.4)**	**(58.9)**	**(2.0)**	**(138.3)**
Net investment return	**33.9**	**5.2**	**0.8**	**39.9**
Other expenses	**–**	**–**	**(5.9)**	**(5.9)**
Segmented operating profit/(loss)	**13.5**	**32.7**	**(11.3)**	**34.9**

Segmented income statement for the year ended 31 December 2012	Motor	Home	Other	Total
Net earned premiums	417.3	158.1	4.2	579.6
Net claims incurred	(424.4)	(76.1)	(1.5)	(502.0)
Net commission expenses	(4.3)	(8.3)	1.6	(11.0)
Operating expenses	(89.1)	(40.4)	(1.3)	(130.8)
Net investment return	65.0	10.8	1.3	77.1
Other expenses	–	–	(5.0)	(5.0)
Segmented operating profit/(loss)	(35.5)	44.1	(0.7)	7.9

Reconciliation of segmental income to statutory income statement

Net earned premiums and claims are reported on a consistent basis for segmental and statutory reporting purposes.

	2013	2012
Operating expenses		
Total operating expenses for reportable segments	**(138.3)**	(130.8)
Items reported as significant within management information	**(1.3)**	–
Reclassification of investment expenses	**(1.3)**	(1.3)
Operating expenses	**(140.9)**	(132.1)
Commission expenses		
Total commission expenses for reportable segments	**(6.5)**	(11.0)
Reclassification of commission income	**(13.3)**	(10.7)
Fee and commission expenses	**(19.8)**	(21.7)
Other expenses is made up of:		
Financial Services Compensation Scheme levies	**(2.4)**	(1.4)
Finance costs	**(3.5)**	(3.6)
	(5.9)	(5.0)

All amounts are stated in £m unless otherwise indicated

1. Segmental analysis continued

Reconciliation of segmental income to statutory income statement

	2013	2012
Investment return		
Total investment return for reportable segments	**39.9**	77.1
Reclassification of investment expenses	**1.3**	1.3
Reclassification of other operating income	**(0.3)**	(3.6)
Investment return (analysed as below in the income statement)	**40.9**	74.8
Investment income	**27.9**	51.6
Gains less losses arising from financial instruments	**13.0**	23.2
	40.9	74.8

2. Net earned premiums

	2013	2012
Gross premiums		
Gross written premiums	**443.6**	555.7
Change in unearned premium provision	**65.4**	54.7
Gross earned premiums	**509.0**	610.4
Outward reinsurance premiums		
Premiums ceded	**(32.3)**	(29.4)
Change in unearned premium provision	**(0.2)**	(1.4)
Premiums ceded to reinsurers	**(32.5)**	(30.8)
Net earned premiums	**476.5**	579.6

3. Fee and commission income

	2013	2012
Fee income	**8.7**	7.9
Reinsurance commission earned	**3.7**	1.8
Other commission	**0.9**	1.0
	13.3	10.7

4. Investment income

	2013	2012
Interest and similar income from assets held at fair value through income or expense:		
Rental income from investment properties	**–**	0.1
Deposits with credit institutions	**1.2**	0.3
	1.2	0.4
Interest income (calculated using Effective Interest Rate) from available for sale assets:		
Listed debt securities	**26.7**	51.2
Total investment income	**27.9**	51.6

All amounts are stated in £m unless otherwise indicated

5. Gains less losses arising from financial instruments

	2013	2012
Net gains arising on financial assets:		
Available for sale listed debt securities	**13.0**	22.9
Derivatives	**–**	0.3
	13.0	23.2

Derivative gains relate to futures contracts; these contracts do not qualify for hedge accounting treatment under IAS 39 (Financial Instruments: Recognition and Measurement).

6. Other operating income

Other operating income includes £nil (2012: £3.0m) of rental income from owner occupied investment properties rented to other group companies, as these properties were sold during 2012, and £0.3m (2012: £0.6m) of interest income in respect of a loan to the Co-operative Group Limited.

7. Net policyholder claims and benefits paid

	2013	2012
Gross claims paid		
Current year claims	**154.1**	203.2
Prior year claims	**282.6**	322.0
Gross claims paid	**436.7**	525.2
Less salvage and subrogation		
Current year claims	**(10.2)**	(18.1)
Prior year claims	**(16.5)**	(24.3)
Salvage and subrogation received	**(26.7)**	(42.4)
Claims paid	**410.0**	482.8
Less amounts receivable from reinsurers		
Current year claims	**(4.2)**	(3.4)
Prior year claims	**(2.6)**	(6.5)
Amounts receivable from reinsurers	**(6.8)**	(9.9)
Net policyholder claims and benefits paid	**403.2**	472.9

8. Fee and commission expenses

	2013	2012
Commission paid	**18.5**	19.9
Change in deferred commission	**1.3**	1.8
	19.8	21.7

9. Operating expenses

	2013	2012
Administration expenses	**91.0**	82.3
Acquisition expenses	**49.9**	49.8
Significant items	**–**	4.9
	140.9	137.0

CISGIL does not have any employees; all sales are effected by employees of CFS Management Services Limited (CFSMS) which also provides administration and other services. CFSMS is also responsible for the remuneration of all directors of the Banking Group, including directors of CISGIL. CISGIL's share is charged to the company, at cost, by way of a management service charge from CFSMS. Key management compensation is discussed in note 27.

Included within the recharges is £7.6m (2012: £7.7m) paid by CISGIL in respect of its share of regular pension contributions, which includes £2.0m (2012: £2.1m paid) in respect of the PACE pension deficit funding. The details of the PACE scheme are included in the financial statements of The Co-operative Group.

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

	2013 £'000	2012 £'000
Audit of these financial statements	**174**	116
Amounts receivable by CISGIL's auditor and its associates in respect of:		
Audit-related assurance services	**31**	30
Other assurance services	**–**	28
All other services	**19**	205
	224	379

10. Income tax

	2013	2012
Current tax		
UK tax for the current year	**7.5**	0.8
UK tax adjustments in respect of prior years	**(0.9)**	–
Total current tax charge	**6.6**	0.8
Deferred tax		
Origination and reversal of temporary differences	**0.1**	(0.1)
Effect of tax rate change	**(0.8)**	(0.2)
Total deferred tax credit	**(0.7)**	(0.3)
Total tax charge recognised in the income statement	**5.9**	0.5

Further information about deferred income tax is presented in note 21.

All amounts are stated in £m unless otherwise indicated

10. Income tax continued

Reconciliation of effective tax rate

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

	2013	2012
Profit before taxation	**33.6**	3.0
Tax calculated at domestic corporation tax rate of 23.25% (2012: 24.50%)	**7.8**	0.7
Effect of:		
Tax rate change on deferred tax	**(0.9)**	(0.2)
Other adjustments	**(1.0)**	–
Income tax charge	**5.9**	0.5

11. Deferred acquisition costs

	2013	2012
At the beginning of the financial year	**29.9**	33.6
Deferred acquisition costs	**70.4**	60.7
Amortisation	**(65.0)**	(64.4)
At the end of the financial year	**35.3**	29.9

All amounts in the current and prior year are expected to be recovered within one year.

12. Financial investments at fair value through income or expense

	2013	2012
Deposits with credit institutions	**207.6**	314.0

All amounts in the current and prior year are expected to be recovered within one year. Within the above are reverse repo balances of £180.0m (2012: £275.0m). Collateral of £178.8m is held as security against this balance (2012: £281.8m). Please see the credit risk note on pages 30 and 31 for further details.

This category comprises short term fixed rate deposits which are designated as fair value through income and expense upon initial recognition.

There has been no reclassification of financial assets between fair value and cost/amortised cost during the current or prior financial year.

13. Available for sale assets

	2013	2012
Listed debt securities – fixed rate	**720.0**	736.5
Listed debt securities – floating rate	**43.4**	37.0
	763.4	773.5

Of the total available for sale assets, £92.9m (2012: £151.5m) matures and is expected to be received within one year; the remainder is non-current.

All amounts are stated in £m unless otherwise indicated

14. Insurance receivables and other assets

	2013	2012
Receivables arising from insurance:		
Arising from insurance operations	**100.0**	137.1
Salvage and subrogation recoveries	**24.5**	61.4
Reinsurance operations	**1.2**	1.0
Other receivables:		
Accrued interest	**12.6**	16.1
Amounts receivable from Group companies	**6.8**	9.1
Investment receivables	**63.4**	–
	208.5	224.7

No amounts are due after more than one year.

Receivables arising from insurance operations are stated net of an impairment provision of £0.5m (2012: £0.1m). The provision is calculated based on an assessment of insurance receivables for objective evidence that an impairment loss has been incurred. Any adjustment to the level of the provision is recorded within the income statement as an adjustment to written premium.

Insurance receivables and other assets include amounts totalling £13.3m (2012: £16.5m) which are overdue; amounts overdue but not impaired are £12.8m (2012: £16.4m), being the overdue amount net of the impairment provision detailed above. £1.1m (2012: £1.2m) of amounts overdue primarily represent debts due from brokers and intermediaries which are considered fully recoverable. Amounts overdue are age analysed as follows:

	2013	2012
Amounts overdue:		
Less than 3 months	**12.2**	15.3
3 to 6 months	**–**	0.7
6 to 12 months	**1.1**	0.5

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

15. Loans and receivables

	2013	2012
Amounts due from the Co-operative Group Limited	**–**	50.0

The 2012 receivable arose from the sale of £39.0m of property, plant and equipment and £11.0m of investment property to the Co-operative Group Limited. The loan was secured on property and was repaid in full in February 2013.

16. Bank overdraft

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

17. Share capital

	2013	2012
Authorised		
183,000,000 ordinary shares of £1 each	**183.0**	183.0
Allotted and called up		
183,000,000 ordinary shares of £1 each	**183.0**	183.0

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

All amounts are stated in £m unless otherwise indicated

18. Retained earnings and other reserves

	2013	2012
Retained earnings		
At the beginning of the financial year	**22.2**	19.7
Profit for the year	**27.7**	2.5
At the end of the financial year	**49.9**	22.2

Any retained earnings would represent amounts available for dividend distribution to the equity shareholder of CISGIL, subject to certain conditions being met.

Other reserves of £50.0m (2012: £70.9m) constitute available for sale reserves and a capital reserve. The capital reserve represents a non-refundable capital contribution from the immediate parent company, the Co-operative Banking Group Limited, and is distributable. Further details are given within the statement of changes in equity on page 14.

19. Other borrowed funds

	2013	2012
Floating rate subordinated notes 2021	**35.0**	35.0
Floating rate perpetual subordinated notes	**30.0**	30.0
Fixed rate perpetual subordinated notes	**20.0**	20.0
	85.0	85.0

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

Finance costs incurred during the financial period include £3.3m (2012: £3.4m) in relation to interest on the subordinated debt.

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

Floating rate subordinated notes 2021

£75m of subordinated debt was issued to the immediate parent, the Co-operative Banking Group Limited, 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 in arrears at 1% above three month LIBOR up to the tenth anniversary and at 2% above three month LIBOR for the remainder of the term. During 2010, CISGIL redeemed £40m of the subordinated debt at par.

Floating rate perpetual subordinated notes

During 2007, £30m of additional perpetual subordinated debt was issued to the Co-operative Banking Group Limited in two tranches. £20m was issued on 30 July 2007 followed by a further £10m on 15 August 2007. In both cases the issue was at par. Both tranches provide for interest payable at 1.5% above three month LIBOR for the first five years and 2% above three month LIBOR thereafter. The agreements provided the option of full repayment at the fifth anniversary and continues to provide for repayment at quarterly intervals thereafter subject to certain conditions.

Fixed rate perpetual subordinated notes

A £20m tranche of perpetual subordinated debt was issued at par to the Co-operative Banking Group Limited during 2011. The subordinated debt has a coupon of 10% and has the option of full repayment at the fifth anniversary or at quarterly intervals thereafter subject to certain conditions.

All amounts are stated in £m unless otherwise indicated

20. Insurance contract liabilities and reinsurance assets

a) Analysis of insurance contract liabilities

	2013	2012
Gross		
Claims reported	**495.3**	557.5
Claims incurred but not reported	**144.9**	180.4
Claims settlement expenses	**16.7**	18.2
Unearned premiums	**207.2**	272.6
Unexpired risk provision	**2.2**	–
Total gross insurance liabilities	**866.3**	1,028.7
Recoverable from reinsurers		
Claims reported	**(23.2)**	(16.1)
Claims incurred but not reported	**(31.5)**	(26.4)
Unearned premiums	**(2.1)**	(2.3)
Total reinsurers' share of insurance liabilities	**(56.8)**	(44.8)
Net		
Claims reported	**472.1**	541.4
Claims incurred but not reported	**113.4**	154.0
Claims settlement expenses	**16.7**	18.2
Unearned premiums	**205.1**	270.3
Unexpired risk provision	**2.2**	–
Total net insurance liabilities	**809.5**	983.9

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.

Indemnification agreement

On 15 January 2006, CISGIL assumed responsibility for the benefits and burdens arising from the run off of general insurance liabilities of the Co-operative Insurance Society Limited (CISL) 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 CISL:

	2013	2012
Outstanding claims	**41.3**	47.5
Claims incurred but not reported	**22.2**	17.3
Total gross insurance liabilities	**63.5**	64.8

20. Insurance contract liabilities and reinsurance assets continued

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

i. Basis of assessing liabilities

CISGIL has access to historical data and trends relating to the general insurance business of CISL 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; and
- projecting historic claims paid and incurred data (payment plus estimates) – statistical actuarial techniques including chain ladder, Bornhuetter-Ferguson and Cape Cod.

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

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

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

Discounted reserves in respect of periodic payment settlements are £23.8m (2012: £23.2m) and EIROS discounted reserve amounts to £2.7m (2012: £2.5m). Further details around expected settlement patterns for claims arising on these reserves are disclosed within the insurance risk section on pages 25 and 26.

The EIROS reserve was based on a report produced for the industry by Towers Watson (an actuarial consultancy) at the end of 2013, which gave Towers Watson's estimate of both the undiscounted and discounted incurred but not reported (IBNR) reserves as at the end of June 2013. This was the most recent report available when we calculated our year end 2013 reserves.

In respect of business yet to be earned, the adequacy of the premium to cover future claims costs and expenses is assessed to determine the need for an Unexpired Risk Provision (URP) by comparing the discounted premium and outgoings. As at the end of 2013 there is a need for an URP of £2.2m.

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

The overall objective of CISGIL's reserving policy is to produce reliable and accurate reserves. Assumptions underlying the reserving calculations are agreed by the Quarterly Reserving Committee (QRC). Methodologies are peer reviewed throughout the calculation process. Provisions are approved and signed off by the QRC, and any margin above the actuarial best estimate reserve is set by the Chief Financial Officer.

Periodic reports are produced by the actuarial team and presented to the Periodic Reserving Committee in order to advise management of the performance of the business. More detailed reports are produced on a quarterly basis providing information on the performance of the business against plan. These reports are presented to the QRC and form the basis of reporting the performance to the Board.

ii. Key assumptions

Principal assumptions underlying the claims provisions include:

- Future inflation rates are in line with those recently implied in the claims data; and
- for bodily injury claims allowance has been made for:
  - i. use of the appropriate Ogden Tables;
  - ii. awards for general damages in accordance with the 10th edition of the JSB guidelines;
  - iii. a proportion of large claims being settled by periodic payments; and
  - iv. improvements in the case estimation techniques resulting in earlier recognition of the size of claims.

All amounts are stated in £m unless otherwise indicated

20. Insurance contract liabilities and reinsurance assets continued

The gross insurance provision for claims and loss adjustment expenses arising in respect of prior years of £427.1m (2012: £439.9m) includes a movement of £47.3m (2012: £43.8m) arising from an release/(increase) of reserves, as follows:

	2013	2012
Fire and Accident release of reserves	7.2	3.1
Motor release/(increase) of reserves	42.8	(43.1)
Increase in claims handling reserves	(2.7)	(3.8)
Movement in gross insurance liabilities	47.3	(43.8)

iii. Sensitivity analysis

There is greater uncertainty over motor claims provisions than other provisions as they often involve claims for bodily injury and associated legal costs which 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) of changes in key assumptions. The impact of the increased uncertainty on the income statement risk is mitigated through holding management margin on the best estimate reserves that is proportional to the level of uncertainty.

	Change in parameter	Effect on gross provision	% Effect
2013			
Assumption			
Motor			
Average cost of claims for last three years – bodily injury and legal	10%	65.0	12.3%
Mean term to settlement – bodily injury and legal	+½ year	10.3	1.9%
Rate of future inflation – bodily injury and legal	1%	18.4	3.5%
Ogden discount rate – bodily injury	-¼%	2.2	0.4%
Other classes			
Mean term to settlement (liability)	+½ year	0.4	2.1%
Mean term to settlement (non-liability)	+½ year	0.8	1.4%
Rate of future inflation (liability)	1%	0.9	4.9%
Rate of future inflation (non-liability)	1%	0.7	1.3%

	Change in parameter	Effect on gross provision	% Effect
2012			
Assumption			
Motor			
Average cost of claims for last three years – bodily injury and legal	10%	66.9	13.7%
Mean term to settlement – bodily injury and legal	+½ year	10.8	1.9%
Rate of future inflation – bodily injury and legal	1%	18.7	3.2%
Ogden discount rate – bodily injury	-¼%	4.6	0.8%
Other classes			
Mean term to settlement (liability)	+½ year	0.2	2.1%
Mean term to settlement (non-liability)	+½ year	0.8	1.3%
Rate of future inflation (liability)	1%	0.6	5.2%
Rate of future inflation (non-liability)	1%	0.9	1.3%

All amounts are stated in £m unless otherwise indicated

20. Insurance contract liabilities and reinsurance assets continued

c) Change in general insurance liabilities and reinsurance assets

i. Change in insurance contract liabilities (net of salvage and subrogation)

	Gross 2013	Unexpired risk provision 2013	Salvage & subrogation 2013	Net 2013	Gross 2012	Unexpired risk provision 2012	Salvage & subrogation 2012	Net 2012
At the beginning of the year	**756.1**	**–**	**(61.4)**	**694.7**	716.3	–	(46.6)	669.7
Movement in the year	**(99.3)**	**2.2**	**36.9**	**(60.2)**	39.8	–	(14.8)	25.0
At the end of the year	**656.9**	**2.2**	**(24.5)**	**634.5**	756.1	–	(61.4)	694.7

Salvage and subrogation is included within assets as part of insurance receivables (note 14).

ii. Claims and loss adjustment expenses

	Gross 2013	Reinsurance 2013	Net 2013	Gross 2012	Reinsurance 2012	Net 2012
Claims reported	**557.5**	**(16.1)**	**541.4**	587.8	(17.3)	570.5
Claims incurred but not reported	**180.4**	**(26.4)**	**154.0**	111.2	(29.3)	81.9
Claims settlement expenses	**18.2**	**–**	**18.2**	17.3	–	17.3
At the beginning of the year	**756.1**	**(42.5)**	**713.6**	716.3	(46.6)	669.7
Claims paid during the year	**(436.7)**	**6.8**	**(429.9)**	(525.2)	9.9	(515.3)
Increase/(decrease) in liabilities:						
Arising from current year claims	**384.7**	**(17.2)**	**367.5**	521.2	(12.3)	508.9
Arising from prior year claims	**(47.3)**	**(1.8)**	**(49.1)**	43.8	6.5	50.3
Total movement	**(99.3)**	**(12.2)**	**(111.5)**	39.8	4.1	43.9
Claims reported	**495.3**	**(23.2)**	**472.1**	557.5	(16.1)	541.4
Claims incurred but not reported	**144.9**	**(31.5)**	**113.4**	180.4	(26.4)	154.0
Claims settlement expenses	**16.7**	**–**	**16.7**	18.2	–	18.2
At the end of the year	**656.9**	**(54.7)**	**602.2**	756.1	(42.5)	713.6

iii. Provisions for unearned premiums

	Gross 2013	Reinsurance 2013	Net 2013	Gross 2012	Reinsurance 2012	Net 2012
At the beginning of the year	**272.6**	**(2.3)**	**270.3**	327.3	(3.7)	323.6
Increase in the year	**443.6**	**(32.3)**	**411.3**	555.7	(29.4)	526.3
Release in the year	**(509.0)**	**32.5**	**(476.5)**	(610.4)	30.8	(579.6)
Movement in the year	**(65.4)**	**0.2**	**(65.2)**	(54.7)	1.4	(53.3)
At the end of the year	**207.2**	**(2.1)**	**205.1**	272.6	(2.3)	270.3

All amounts are stated in £m unless otherwise indicated

20. Insurance contract liabilities and reinsurance assets continued

iv. Unexpired risk provision

	Gross 2013	Reinsurance 2013	Net 2013	Gross 2012	Reinsurance 2012	Net 2012
At the beginning of the financial year	**–**	**–**	**–**	–	–	–
Increase in the financial year	**2.2**	**–**	**2.2**	–	–	–
Release in the financial year	**–**	**–**	**–**	–	–	–
Movement in the financial year	**2.2**	**–**	**2.2**	–	–	–
At the end of the financial year	**2.2**	**–**	**2.2**	–	–	–

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 related to the motor class of business. Further details can be found in the accounting policy on page 21.

v. Analysis of claims development

	Accident year								
	2006	2007	2008	2009	2010	2011	2012	**2013**	**Total**
Gross of reinsurance									
At end of the accident year:	1,367.9	384.5	347.3	325.8	411.3	498.0	502.1	**368.1**	**4,205.0**
One year later	1,264.7	387.8	319.7	333.0	456.3	531.2	473.4	**–**	**3,766.1**
Two years later	1,199.3	378.3	310.2	340.7	481.0	528.4	–	**–**	**3,237.9**
Three years later	1,206.8	364.2	300.8	328.9	466.5	–	–	**–**	**2,667.2**
Four years later	1,195.9	367.4	297.2	320.2	–	–	–	**–**	**2,180.7**
Five years later	1,185.9	366.6	294.1	–	–	–	–	**–**	**1,846.6**
Six years later	1,184.1	362.5	–	–	–	–	–	**–**	**1,546.6**
Seven years later	1,195.8	–	–	–	–	–	–	**–**	**1,195.8**
Estimate for cumulative claims	1,195.8	362.5	294.1	320.2	466.5	528.4	473.4	**368.1**	**4,009.0**
Cumulative payments to date	(1,115.5)	(348.0)	(288.8)	(299.5)	(409.8)	(431.3)	(328.1)	**(146.8)**	**(3,367.8)**
Gross outstanding claims liabilities before discounting	80.3	14.5	5.3	20.7	56.7	97.1	145.3	**221.3**	**641.2**
Discounting									**(1.0)**
Gross outstanding claims liabilities									**640.2**
Gross claims reported									**495.3**
Gross claims incurred but not reported									**144.9**
Gross outstanding claims liabilities									**640.2**

All amounts are stated in £m unless otherwise indicated

20. Insurance contract liabilities and reinsurance assets continued

	Accident year								
	2006	2007	2008	2009	2010	2011	2012	**2013**	**Total**
Net of reinsurance									
At end of the accident year:	1,362.9	372.6	334.6	313.0	398.4	482.2	489.8	**350.9**	**4,104.4**
One year later	1,261.4	377.6	305.5	320.6	434.1	515.8	456.3	**–**	**3,671.3**
Two years later	1,195.9	369.6	296.3	325.6	458.4	516.6	–	**–**	**3,162.4**
Three years later	1,203.9	357.6	292.3	317.8	445.3	–	–	**–**	**2,616.9**
Four years later	1,192.8	359.6	290.2	310.0	–	–	–	**–**	**2,152.6**
Five years later	1,181.4	359.4	287.3	–	–	–	–	**–**	**1,828.1**
Six years later	1,179.8	355.2	–	–	–	–	–	**–**	**1,535.0**
Seven years later	1,188.5	–	–	–	–	–	–	**–**	**1,188.5**
Estimate for cumulative claims	1,188.5	355.2	287.3	310.0	445.3	516.6	456.3	**350.9**	**3,910.1**
Cumulative payments to date	(1,113.2)	(340.8)	(282.1)	(293.9)	(402.4)	(425.3)	(323.3)	**(142.6)**	**(3,323.6)**
Net outstanding claims liabilities before discounting	75.3	14.4	5.2	16.1	42.9	91.3	133.0	**208.3**	**586.5**
Discounting									**(1.0)**
Net outstanding claims liabilities									**585.5**
Net claims reported									**472.1**
Net claims incurred but not reported									**113.4**
Net outstanding claims liabilities									**585.5**

It is to be expected that releases will normally be made to prior years claims as current reserves are set such that no adverse deterioration is expected. However, from time to time the random occurrence of significant large individual claims or events being worse than expected can give rise to a required strengthening, in addition to normal claims development being adverse. The 2013 result includes movement on prior year reserves of £49.1m (2012: £50.3m). This is largely due to a change in the basis of estimation for salvage and subrogation.

21. Taxation

	2013	2012
Current tax		
(Liability)/asset at the beginning of the financial year	**(4.0)**	18.5
Tax charged to the income statement	**(6.6)**	(0.8)
Tax credited/(charged) directly to other comprehensive income:		
Changes in fair value on available for sale assets recognised through other comprehensive income	**6.3**	(9.0)
Tax received during the financial year	**(0.6)**	(12.7)
Liability at the end of the financial year	**(4.9)**	(4.0)

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 20% (2012: 23%).

	2013	2012
Deferred tax liability		
Liability at the beginning of the financial year	**(6.4)**	(6.7)
Tax credited to the income statement	**0.7**	0.3
Liability at the end of the financial year	**(5.7)**	(6.4)
Analysis of deferred tax liability		
Claims equalisation reserve	**(6.0)**	(6.8)
Other timing differences	**0.3**	0.4
Liability at the end of the financial year	**(5.7)**	(6.4)

The 2013 Budget on 20 March 2013 announced that the UK corporation tax rate will reduce to 20% with effect from 1 April 2015. Reductions in the rate from 24% (effective from 1 April 2012) to 23% (effective from 1 April 2013), and to 21% (effective from 1 April 2014) were substantively enacted on 26 March 2012, 3 July 2012 and 17 July 2013 respectively. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2013 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

All amounts are stated in £m unless otherwise indicated

22. Other reinsurance liabilities

	2013	2012
Arising from reinsurance operations	–	2.3

All amounts are due within one year.

23. Insurance and other payables

	2013	2012
Arising out of direct insurance operations	1.7	2.0
Accruals and deferred income	5.7	5.4
Insurance premium taxation payable	7.6	9.9
Amounts due to Group companies	–	0.1
Other payables	2.9	4.5
	17.9	21.9

All amounts are due within one year.

24. Contingent assets and liabilities

CISGIL has a contract with Parabis Ltd, for the provision of claims handling services for third party motor claims. These services are currently treated as VAT exempt within the annual report and accounts. However, this treatment has been challenged by Her Majesty's Revenue & Customs (HMRC). If the view of HMRC is upheld, CISGIL will be liable for a VAT charge (from 2010) of up to £2.1m (2012: £1.4m). Legal Counsel has indicated that it is probable that HMRC's view will be successfully challenged, and therefore a provision has not been made in the financial statements.

During 2012, a provision was raised by CISL, at the time a fellow subsidiary of the Co-operative Banking Group Limited, to cover the present value of lease commitments arising from the failure of a counterparty to which a number of leases had previously been assigned. As CISGIL benefited from the original assignment transaction, CISGIL made a cash contribution in 2012 of £2.6m towards the initial provision. In 2013, the provision and CISGIL's cash contribution was transferred into CFSMS. CISGIL has an agreement with CFSMS, to contribute to any additional costs in excess of the original provision it incurs. However the timing and size of this contribution is uncertain and as such a provision has not been made in CISGIL's year end accounts.

CISGIL is party to a Deed of Guarantee with the Trustee for the benefit of The Co-operative Group Pension Scheme (PACE) that, if CFSMS does not pay any amount due in respect of its funding obligations to PACE, CISGIL will pay to PACE its share of the amount due as if it were the principal obligor for such share. As explained in note 9, CISGIL is currently recharged by CFSMS for its share of the pension contributions, including an element of the PACE deficit funding. The directors have no reason to believe that CFSMS will not be able to continue making payments to PACE when due and therefore, at the current time, do not expect any payments to be required under the guarantee.

No other contingent assets or liabilities were identified as at 31 December 2013 (2012: £nil).

25. Commitments

No commitments were in place as at 31 December 2013 (2012: £nil).

26. Parent undertaking

CIS General Insurance Limited, a subsidiary of the Co-operative Banking Group Limited, is incorporated as an Industrial & Provident Society and is registered in England and Wales.

The Co-operative Group Limited is the ultimate parent and is incorporated as an Industrial & Provident Society and is registered in England and Wales. The results of CIS General Insurance Limited 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 1 Angel Square, Manchester, M60 0AG.

All amounts are stated in £m unless otherwise indicated

27. 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 at arm's length. These include the provision of insurance products to members of the wider Co-operative Group and key management personnel.

	Balances with parent undertaking 2013	**Balances with other related parties 2013**	Balances with parent undertaking 2012	Balances with other related parties 2012
Balances with related parties				
At the beginning of the financial year	**(85.0)**	**(55.5)**	(85.0)	(73.9)
Movement in capital value	**–**	**(0.3)**	–	18.4
At the end of the financial year	**(85.0)**	**(55.8)**	(85.0)	(55.5)

During the financial period, CISGIL settled claims of £9.0m (2012: £17.1m) under the terms of an indemnification agreement to reinsure the general insurance liabilities of CISL in run off. Gross technical provisions in the balance sheet include £63.5m (2012: £64.8m), being outstanding claims liabilities.

CISGIL issued subordinated debt to its intermediate parent, the Co-operative Banking Group Limited. Interest during the financial period amounted to £3.3m (2012: £3.4m).

CISGIL has bank accounts with The Co-operative Bank plc. At the end of 2013, the aggregate balance stood at £0.9m (2012: £0.3m). During the year project costs of £0.7m (2012: £0.8m), included in operating expenses, were charged to CISGIL from The Co-operative Bank plc.

Co-operative Legal Services Limited, a subsidiary of the Co-operative Group Limited, provides legal cover to CISGIL motor and home policyholders. CISGIL has paid £2.7m (2012: received £0.1m) in relation to this cover.

CISGIL has an indemnification agreement, accounted for as an intra-group guarantee under IFRS 4, with CFSMS in which CISGIL has agreed to indemnify CFSMS against all and any liability, loss, damage, costs and expense arising from the agreement.

During the year management fees of £163.4m (2012: £150.7m) included in operating expenses and claims handling costs incurred were charged to CISGIL from CFSMS. £0.1m (2012: £0.2m) was charged for capital utilisation.

During the year, investment asset management fees of £0.7m (2012: £1.1m), included in operating expenses, were charged to CISGIL from the Co-operative Asset Management Limited (TCAM). TCAM ceased to be a related party from August 2013 onwards.

During 2012, CISGIL disposed of its investment property of £11.0m and property, plant and equipment of £39.0m to the Group in exchange for a loan of £50.0m. In February 2013, the Group repaid this loan in full. Interest income of £0.2m (2012: £0.6m) is included within other operating income in respect of the loan.

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

All staff costs are borne by CFSMS and charged out to other companies within the Banking Group at cost.

Key management compensation

	2013	2012
Salaries and short term benefits	**1.1**	3.0
Termination benefits	**–**	1.4
	1.1	4.4

In 2012, key management was defined as Board and executive members of the wider Banking Group.

28. Fair values of financial assets and liabilities

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

a) Financial investments at fair value through income or expense

The fair value of financial assets designated at fair value through income or expense, being short term (less than one month) fixed rate deposits, approximates to their nominal amount.

All amounts are stated in £m unless otherwise indicated

28. Fair values of financial assets and liabilities continued

b) Available for sale assets

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

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

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

c) Borrowed funds

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

d) Receivables and payables

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

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

Financial liabilities

	Carrying value 2013	**Fair value 2013**	Carrying value 2012	Fair value 2012
Other borrowed funds	**85.0**	**85.1**	85.0	82.6

Financial asset and liability classification

The table below analyses financial instruments by measurement basis as detailed by IAS 39 (Financial Instruments: Recognition and Measurement).

Balance sheet categories

	Designated at fair value	**Loans and receivables**	**Available for sale**	**Other amortised cost**	**Total**
2013					
Assets					
Financial assets at fair value through income or expense	**207.6**	**–**	**–**	**–**	**207.6**
Available for sale assets	**–**	**–**	**763.4**	**–**	**763.4**
Other financial assets	**–**	**184.0**	**–**	**–**	**184.0**
Total financial assets	**207.6**	**184.0**	**763.4**	**–**	**1,155.0**
Non-financial assets					**116.6**
Total assets					**1,271.6**
Liabilities					
Other borrowed funds	**–**	**–**	**–**	**85.0**	**85.0**
Overdrafts	**–**	**–**	**–**	**8.9**	**8.9**
Other financial liabilities	**–**	**–**	**–**	**17.9**	**17.9**
Total financial liabilities	**–**	**–**	**–**	**111.8**	**111.8**
Non-financial liabilities					**876.9**
Total liabilities					**988.7**
Capital and reserves					**282.9**
Total liabilities and equity					**1,271.6**

All amounts are stated in £m unless otherwise indicated

28. Fair values of financial assets and liabilities continued

Financial asset and liability classification

	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total
2012					
Assets					
Financial assets at fair value through income or expense	314.0	–	–	–	314.0
Available for sale assets	–	–	773.5	–	773.5
Other financial assets	–	213.3	–	–	213.3
Total financial assets	314.0	213.3	773.5	–	1,300.8
Non-financial assets					136.1
Total assets					1,436.9
Liabilities					
Other borrowed funds	–	–	–	85.0	85.0
Overdrafts	–	–	–	12.5	12.5
Other financial liabilities	–	–	–	24.2	24.2
Total financial liabilities	–	–	–	121.7	121.7
Non-financial liabilities					1,039.1
Total liabilities					1,160.8
Capital and reserves					276.1
Total liabilities and equity					1,436.9

The following table provides an analysis of financial assets and liabilities that are valued or disclosed at fair value, by the three level fair value hierarchy as defined within IFRS7 (Financial Instruments: Disclosure):

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

Based upon guidance issued by The Committee of European Securities Regulators (CESR), CISGIL classifies debt securities in Level 1 only if it can be demonstrated on an individual security by security basis that these are quoted in an active market, ie that the price quotes obtained are representative of actual trades in the market (through obtaining binding quotes or through corroboration to published market prices).

All amounts are stated in £m unless otherwise indicated

28. Fair values of financial assets and liabilities continued

Valuation of financial instruments

	Level 1	Level 2	Level 3	Total
2013				
Assets				
Financial assets at fair value through income or expense	–	207.6	–	207.6
Available for sale assets	–	763.4	–	763.4
Total financial assets at fair value	–	971.0	–	971.0
Liabilities				
Other borrowed funds	–	85.1	–	85.1
Total financial liabilities at fair value	–	85.1	–	85.1

Valuation of financial instruments

	Level 1	Level 2	Level 3	Total
2012				
Assets				
Financial assets at fair value through income or expense	–	314.0	–	314.0
Available for sale assets	–	773.5	–	773.5
Total financial assets at fair value	–	1,087.5	–	1,087.5
Liabilities				
Other borrowed funds	–	82.6	–	82.6
Total financial liabilities at fair value	–	82.6	–	82.6

The valuation techniques using observable inputs relate to debt securities that would otherwise be fair valued using quoted market prices but where there has been short term temporary market inactivity and borrowed funds with no active market price. In obtaining relevant fair values for financial assets, 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. Financial liabilities have been valued using observable inputs including discounted cash flows and comparable credit spreads.

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

	Carrying amount 2013	Fair value 2013	Amortised cost 2013
Investments in debt securities as:			
Available for sale financial assets	763.4	763.4	772.5

	Carrying Amount 2012	Fair value 2012	Amortised cost 2012
Investments in debt securities as:			
Available for sale financial assets	773.5	773.5	775.4

29. Post balance sheet events

In March 2013 The Co-operative Group announced plans to sell CISGIL, with proceeds of the sale envisaged to be a part of the Group's planned £1bn contribution to the recapitalisation of The Co-operative Bank. In January 2014, having considered the sale process and in light of changed requirements under the Bank recapitalisation process, it was decided to reverse the decision to sell. CISGIL's significant growth potential was taken into account in reaching this decision.

CISGIL has entered into an indemnification agreement with Royal London (CIS) Limited, formerly Co-operative Insurance Society Limited (CISL), to assume financial responsibility for the run off of the general insurance business formerly written by CISL. A High Court hearing took place on 17 March 2014, where the Court was asked to approve the Part VII transfer, to CISGIL, of this business in run off. The approval of the Court was received, and the Part VII transfer took effect from 31 March 2014.

CIS General Insurance Limited

Registered under the Industrial and Provident Societies Act
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Registered number: 29999R
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