CIS General Insurance Limited

Annual Report and Accounts 2014

The **co-operative** insurance
Here for you for life

Part of The Co-operative Group Limited

Contents

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	**2014 £m**	2013 £m	Change £m
Net earned premiums	**372.6**	476.5	(103.9)
Net policyholder claims and benefits incurred	**(248.6)**	(330.8)	82.2
Investment return	**23.6**	40.9	(17.3)
Commission and expenses	**(160.5)**	(163.1)	2.6
Other income	**9.5**	13.6	(4.1)
Finance costs	**(3.4)**	(3.5)	0.1
(Loss)/Profit before taxation	**(6.8)**	33.6	(40.4)
Gross written premiums	**365.2**	443.6	(78.4)
Claims ratio[1]	**66.7%**	69.4%	-
Commission and expense ratio (excluding significant items)[2]	**40.2%**	31.1%	-
Combined operating ratio (excluding significant items)[3]	**106.9%**	100.5%	-

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

CISGIL's financial performance in 2014 deteriorated relative to 2013 with profit before taxation decreasing from £33.6m to a loss of £6.8m. Net earned premiums reduced by 21.8% with management expenses broadly unchanged and an overall improvement in the loss ratio reflecting management actions taken during the course of the year. The Home portfolio continues to be profitable, albeit impacted by reduced sales volumes, and the claims ratio has increased back to more normal levels following the unusually good experience in 2013. Actions to improve risk selection and pricing capability in the Motor portfolio drove a reduction in the loss ratio, but overall profitability fell as a consequence of reduced sales volumes.

Gross written premium reduced by £78.4m (17.7%) to £365.2m, driven by a combination of CISGIL's reduced appetite for exposure to higher risk business, an increasingly competitive market leading to a prolonged period of soft premiums and the impact of adverse media coverage of The Co-operative Group Limited (the Group) and The Co-operative Bank Limited (the Bank), particularly in the first half of the year. CISGIL has maintained a disciplined approach to underwriting and these factors have again led to lower business volumes while average premiums have reduced on both motor and home. Retention rates for Home business have deteriorated slightly relative to 2013 but retention remains strong reflecting the loyalty of our customers and the strength of The Co-operative Insurance service.

The claims ratio for 2014 improved significantly from 69.4% to 66.7% as the benefits of action taken to improve the quality of underwriting and pricing in the Motor portfolio continue to be realised and more than offset the anticipated increase in home loss ratio.

The unexpired risk provision was increased, with an additional £8.6m being provided in the year. This now puts the provision at £10.8m overall as the future estimated value of claims and expenses is likely to be greater than the unearned premium.

In common with the market, investment income remain at low levels (similar to 2013 and notably lower than prior years) reflecting the yields currently available. Gains of £3.0m (2013: £13.0m) were realised on the sale of investment assets during the year, mainly to reduce exposure to capital volatility.

Whilst a focus was maintained on costs, the commission and expense ratio increased from 31.1% in 2013 to 40.2%, reflecting lower premium income against a cost base that could only be reduced following technological investment. CISGIL direct expenses were actively managed down by actions that were implemented to offset costs arising from one-off activities.

Developments in 2014

During the early part of 2014, following the revised terms of the restructuring of the Bank, the Group announced the decision to retain CISGIL, recognising its long term 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. As a result of this activity, formal service management frameworks are being put in place as appropriate. The management of CISGIL has also been strengthened as it separates from the Bank by the appointment of four new Non-Executive Directors who bring significant financial services and transformation experience to the Board.

During the course of 2014 CISGIL undertook a full strategic review of the business. A new strategy has been approved which will see CISGIL become a member focused insurer supported by a new operating model which reinforces the renewed purpose of the Group. A new operating model programme has been established to deliver the end to end transformation of CISGIL and enable delivery of the new strategy.

Alongside the development of the longer term strategy, CISGIL has delivered a series of operational improvements to increase short-term profitability. This includes delivery of major updates to the technical pricing models, deployment of a new rating engine for Young Driver, introduction of credit scoring for Home products and increases in non-risk income. Distribution reach through broker channels was extended and the control environment was also improved with the roll out of a new risk management framework and the development of the conduct risk framework.

A Part VII transfer was completed in March 2014 to transfer the general insurance business that had been written by Co-operative Insurance Society Limited (CISL) to CISGIL.

In December 2014 capital quality was improved through the issuance of £85.0m of new equity to The Co-operative Banking Group Limited (the Banking Group) and repayment of subordinated loans.

Significant investment was maintained in The Co-operative Insurance brand, with television advertising to grow brand recognition continuing throughout 2014. During the latter part of 2014, marketing activity was focused more directly on members of the Co-operative utilising offers from across the family of businesses.

CISGIL's internal measures of customer satisfaction reflect a positive message across 2014, despite further adverse media coverage of the Group and the Bank, particularly in the first half of the year. 23,000 independent survey responses were collated from customers in the year, with a notable improvement of 14% in Net Promoter Score (NPS) for Home in particular. The motor equivalent improved marginally, while scores for Customer Promise increased slightly on both motor and home.

In 2014, Ethical Consumer Magazine rated The Co-operative Insurance as the leading provider of ethical Home, Motor and Pet Insurance. Our Motor Product and Select Plus Home product were awarded a defaqto 5 star rating.

Market background

2014 has been a year of further challenging trading conditions in the insurance sector. Market pricing has softened significantly across both Motor and Home, intensifying competition. Motor premiums are circa 10% lower than they were a year previously, despite an up-turn during the second half of 2014, while Home pricing has continued to fall (circa 5%) as a consequence of the largely benign weather conditions in the last few years. As always in this kind of competitive environment, discounting and value promotion are commonplace.

The continuing low investment yields represent a major systemic change which should lead to an increased focus on underwriting discipline in order to drive profitability. CISGIL's result has been impacted by movements in the return on corporate bonds in particular.

Customer preference continues to shift to online channels, particularly mobile. There is growing evidence that customers expect to move seamlessly between channels and devices and it is critically important that insurers manage their interactions with customers on an omni-channel basis.

Regulatory scrutiny is intense with particular focus arising from thematic reviews by the Financial Conduct Authority (FCA) and the Competition Commission enquiry into private motor insurance. The outcomes of the latter have already begun to feed into the market, and whilst the remedies did not go as far as CISGIL wished in eliminating market distortions, CISGIL has now considered how to operate in the new environment and will leverage available opportunities.

Regulatory change

From 1 April 2014 the FCA took responsibility for the supervision of consumer credit from the Office of Fair Trading. This has increased scrutiny from the regulator, including a review being initiated into how insurance firms offer finance for the payment of premiums.

In April the FCA released their first report focussing on competition in financial services, specifically on how general insurance add-ons are sold. The regulator is yet to finalise how they intend to remedy the issues they have found in the market. However, a number of messages have been released indicating that they will consider banning opt-out sales and require firms to publish claims ratios to highlight potentially poorer value products.

The Competition and Markets Authority (CMA) issued their final report following their investigation into the private motor insurance market. The CMA identified competition issues between the liability for costs and the control of costs in the handling of non-fault drivers' claims, how add-on products were sold and 'most favoured nation' clauses between price comparison websites and insurers. The remedies proposed did not include a remedy to address non-fault claims costs as proposed remedies were not effective or proportionate. The CMA has referred the add-on issue to the FCA, and has proposed that insurers provide additional information at the point of sale of protected no claims bonus: CISGIL is exploring options to comply with these requirements. CISGIL is also working with comparison website partners to understand the impact on current contracts.

New European Union rules on solvency are to be launched in January 2016 (Solvency II), which CISGIL continues to work towards. The European Directive has now been finalised, although national specific guidelines are still a work-in-progress. Despite this, CISGIL is making good progress with its implementation plans.

Strategy

Following the challenges of 2013 and 2014, the re-building of The Co-operative Group has begun in earnest in 2015. CISGIL will play a key role in this re-building through the execution of the new strategy approved in 2014.

CISGIL completed a comprehensive strategic review in 2014. This was conducted with, and validated by, external consultants. CISGIL aims to be 'the go to insurance provider for Co-operative members' with a continued focus on motor and home insurance products. The key elements of the strategy to achieve this strategic goal are:

- Focus on existing customers of The Co-operative Group;
- Build strong data and analytical capabilities to utilise and leverage data captured by The Co-operative Group;
- Develop key distribution partnerships; and
- Reduce risk to diversify income (and volatility) and reduce regulatory capital requirements.

To support the strategy CISGIL intends to leverage three sustainable competitive advantages:

- Brand – utilising the Co-operative brand to support a proposition based around 'insurance done better' in a market which is mistrusted, yet where trust remains an important driver of purchase choice. Research has shown that the Co-operative brand still resonates strongly with consumers in this area.
- Privileged access to data – CISGIL has the benefit of access to the data of members of Co-operative Group companies. The available data provides a valuable insight into behaviour and potential insurance requirements of Co-operative members which yields advantages in insurance risk assessment (which can support better pricing), and recruitment (through increased marketing effectiveness).
- Distribution reach – active marketing direct to consumers and through other Co-operative Group businesses with a focus on members will provide additional opportunities. This will be supported by widening the competitive position and underwriting footprint through the creation and operation of a panel of other underwriters supporting CISGIL's proposition.

Strategy continued

The operating model was also reviewed as part of the Strategic review and a number of issues were identified, both in its current operation and as a model for moving forward. The lack of flexibility inherent in CISGIL's IT processes and legacy systems has meant that while business levels have been falling the fixed nature of a number of costs within the business has resulted in a commission and expense ratio in 2014 of 40.2% compared to 31.1% in 2013 which is significantly higher than CISGIL's competitors and requires action. CISGIL concluded during the period of the strategic review that, while it would be possible to improve performance by taking actions in the identified areas under the existing operating model, to fully to deliver its strategic goals it would be necessary to establish a programme to transform its technology capabilities as follows:

- A new operating model will be supported by a new technology solution which will be delivered by an experienced system integrator using a platform already proven in the UK insurance market and delivered through third parties.
- Capabilities will be improved in key areas such as pricing, data, proposition and distribution by strengthening the leadership team and leveraging the capabilities offered by the new platform.
- Operational improvements will be made in the current operating model to minimise the drag on short-term profitability whilst the transformation is executed.

CISGIL plans to design, configure and implement the new technology solution in 2015. It plans to write new business on this platform early in 2016 and to transfer existing business on renewal from mid-2016.

The new operating model thus implemented is expected to bring expense ratios in line with market levels, to give the flexibility to properly utilise the data available from within The Co-operative Group, to increase premium and new business volume and to enable the planned expansion of distribution partnerships.

The key risks to CISGIL's transformation programme are CISGIL's ability to raise the finance required to fund transformation, and execution risk.

Based on the information available to the Board at the current time, including taking external advice, CISGIL is highly confident in its ability to raise additional finance. Until completion however, there remains a risk that events not wholly within the Board's control could impact on the capital being secured.

To ensure the correct focus is placed on developing and implementing the strategy, a specific governance structure has been introduced around the business transformation programme. A specific Board Committee, the Board Transformation Committee has been formed with overall responsibility for delivering the programme, which reports directly to CISGIL's Board. In addition to the Board Transformation Committee there is a pyramid of further committees with responsibilities for specific aspects of the transformation programme. Reporting to the Board Transformation Committee are the Transformation Executive Steering Committee and the Business Design Authority which are the primary forums for the delivery of the transformation programme and which are accountable for managing the transformation, in particular overseeing cost, quality, timing and scope. There are a number of further sub-committees with reporting lines to the Transformation Executive Steering Committee and the Business Design Authority. These reporting lines ensure that there is a properly understood and functional methodology to provide oversight and direction to the plan and an established escalation process for decision making and risk assessment. By separating the transformation programme reporting structure from the day to day management of the business the objective is to ensure that appropriate actions necessary for the business to continue functioning are taken while the strategy implementation teams retain the correct focus. CISGIL is currently seeking to recruit a Transformation Director to oversee the programme.

CISGIL's profitability and capital base will be significantly impacted by the build costs of the new platform, both internal and external, and the need to dual run the existing and new operating models until all policies are transferred onto the new platform by mid-2017. Ways to accelerate this timeline will be considered, but these will be assessed against any potential increase in execution risk as the success of the transformation programme is fundamental to the ongoing success of the organisation.

Outlook

Market conditions will remain challenging over the next 12 to 18 months even if motor premiums continue their modest up-turn. Home pricing is expected to remain soft over at least the first half of 2015. 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 rate and volume of regulatory change in 2014 looks set to continue into 2015. In late 2014 the FCA and Prudential Regulation Authority (PRA) issued a consultation on a Senior Managers Regime for Insurers, which is set to replace the current approved persons regime and will require changes in current approved persons and accountability of responsibilities. The FCA also consulted on proposed changes to how firms handle complaints at the end of the year, and the intended changes will have a significant impact on how firms handle and record complaints. The FCA are also continuing work to finalise their remedies to address add-on sales.

Principal risks and uncertainties

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

	Risk Type	Definition	Page
A	Strategic and business risk	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	34
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	34
C	Conduct risk	The risk that CISGIL's behaviours, offerings or interactions will result in unfair outcomes for customers	34
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	34
E	Insurance risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities	35
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	36
G	Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events	37
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	38
I	Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations	39
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	41
K	Group risk	The risks that arise through being part of The Co-operative Group	41

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.

More detail regarding these risks can be found in the Risk Management section of these accounts on pages 30 to 41.

CISGIL's proposed transformation programme also gives rise to execution risk. This has been recognised by management through the setting up of transformation committees, at executive and Board level, to mitigate this risk over the implementation period.

Directors' report

Key performance indicators

The business strategy for CISGIL measures success in five key areas: financial and trading, customer, colleague, capital adequacy & risk and brand strength. 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.

Financial and trading	Customer	Capital Adequacy & Risk	Brand Strength
Financial and trading measures focus on profitability, volumes and efficiency	Customer measures report on customer contacts throughout the customer journey	Risk measures focus on capital adequacy and risk appetite	Brand strength metrics focus on key external relationships through which we sustain and grow our business
Gross written premium	Customer satisfaction	Risk appetite	Awareness
This shows the level of premium income that combined business classes are bringing into CISGIL.	This represents customers' level of satisfaction with the performance of customer service advisers.	For each of the principal risks, CISGIL Board has approved risk appetite statements with underpinning metrics.	A measure of how likely a potential customer is to recognise a brand.
Combined operating ratio	**Colleague**	Capital buffer	Social listening
This compares the levels of claims, costs and commissions being paid out against the level of earned premium.	Colleague measures focus on key internal relationships	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.	A measure of unprompted perceptions of Co-operative Insurance through social media networks. The score monitors the number of negative posts, as a percentage of total posts, in a given period.
Profit before tax	Colleague engagement		
This shows the level of profit before tax	Our colleague engagement assessment is derived from our twice-yearly internal colleague survey. This is a combined score for all the functions in the end to end business.		

	2014	2013		**2014**	2013		**2014**	2013		**2014**	2013
Gross written premium	**£365.2m**	£443.6m	Customer satisfaction score	**61.40%**	New KPI	Risk appetite metrics have approved limits within which business operations are to be conducted, along with thresholds to give early warning of emerging issues. All externally imposed capital requirements have been continuously met.			Awareness	**6.8%**	6.8%
Combined operating ratio	**106.9%**	100.5%	Colleague engagement	**55%**	52%				Social Listening	**38.6%**	13.4%
(Loss)/ profit before tax	**(£6.8m)**	£33.6m									

By order of the Board

Pat Wade, Secretary
10 March 2015

The Board

Non-Executive Directors:

Robert Newton (Chair)	BSc, FIA, CDir. Age 65. Joined the Board in 2007. Over 40 years' experience in the financial services industry. Chair of Silentair Group Limited. Non-Executive Director of Reclaim Fund Ltd and The Co-operative Banking Group Limited.
Neil McKenzie	FCII. Age 60. Joined the Board in 2013. Over 30 years' general insurance experience, having worked for a range of organisations in senior leadership positions. Non-Executive Director of JBS Executive Education Limited.
David Lister	Age 56. Joined the Board in 2014. 35 years' experience of technology and transformation working in senior roles in a wide range of industries, most recently Group Chief Information Officer for National Grid. Non-Executive Director of Nuffield Health, Department of Work and Pensions and The Tech Partnership.
Caroline Fawcett	BSc (Hons), DipM, MCIM. Age 56. Joined the Board in 2014. 18 years' experience in senior marketing and customer experience roles, most recently as founder and lead consultant for Customer Experience First Ltd. Non-Executive Director of Engage Mutual Assurance.
Graham Singleton	BSc, ARCS, FIA. Age 51. Joined the Board in 2014. Qualified actuary with 30 years' experience in the financial services industry, having worked for a range of organisations in senior positions including in Actuarial, CFO and CEO roles.
Alistair Asher	LLB. Age 59. Joined the Board in 2014. General Counsel of The Co-operative Group and member of the Group Executive. Solicitor with over 30 years' experience of a wide range of commercial and corporate finance transactions and was Global Head of the Financial Institutions Group at Allen & Overy LLP. Chair of Co-operative Legal Services Limited. Director of NOMA (GP) Limited, Co-operative Trust Corporation Limited, and Federal Retail and Trading Services Limited.

Executive Director:

Mark Summerfield	BA (Hons) (Econ), ACII. Age 53. Joined the Board in 2013. 31 years' financial services experience. CEO of CIS General Insurance Limited. Joined The Co-operative Group in April 2004 and previously worked for Fleming & Co, Prudential plc, MISYS plc and Phoenix Assurance plc in a variety of general management roles.

Report of the Board of Directors

Changes to the Board

The names of the current members of the Board, their biographies and details of length of service are set out on page 10.

The directors of CIS General Insurance Limited (CISGIL) during the financial year are listed below. Their appointments were for the full period unless otherwise indicated.

	Date of appointment	Date of resignation
Non-Executive Directors:		
Robert Newton (Chair)		
David Davies		21 January 2015
Neil McKenzie		
Andrew Wainwright-Brown		31 October 2014
Alistair Asher	9 December 2014	
David Lister	9 December 2014	
Caroline Fawcett	9 December 2014	
Graham Singleton	9 December 2014	
Executive Directors:		
Mark Summerfield (Chief Executive Officer)		

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 director, 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, is eligible for re-appointment 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 29 April 2015.

Board Committees

The CISGIL Board delegates certain of its responsibilities to Board Committees to enable it to carry out its functions effectively. Risk and Audit Committees were established in 2013 and the Board established Remuneration and Transformation Committees in 2015 in order to strengthen the governance of CISGIL. The Board ensures that each Committee is provided with sufficient resources to enable it to undertake its duties. The Board Committees formally report to the Board on their proceedings and generally on all matters and activities for which they are responsible. All Board Committees have Terms of Reference describing the authority delegated to them by the Board.

The Remuneration Committee was established on 11 December 2014 and prior to this all remuneration related topics were addressed by either the CISGIL Board or The Co-operative Group Limited (the Group) Remuneration and Appointments Committee. The inaugural meeting of the Remuneration Committee will take place in the first quarter of 2015.

The Transformation Committee was established on 11 December 2014 following the approval of CISGIL's new strategy. The purpose of the Transformation Committee is to oversee CISGIL transformation and advise and make recommendations to the CISGIL Board and Executive regarding related material matters and their impact on the delivery of the Strategic Plan. The inaugural meeting of the Transformation Committee took place in January 2015.

Composition of the Board Committees

The Committee members during the financial year are listed below. Their appointments were for the full period unless otherwise indicated.

Audit Committee	Date of appointment	Date of resignation
Graham Singleton (Chair)	9 December 2014 (Chair 21 January 2015)	
David Lister	21 January 2015	
Neil McKenzie		
David Davies		21 January 2015
Andrew Wainwright-Brown		31 October 2014

For the period to 31 October 2014 Andrew Wainwright-Brown was Chair of the Audit Committee. For the period 31 October 2014 to 21 January 2015 this role was filled on an interim basis by David Davies.

Risk Committee	Date of appointment	Date of resignation
Neil McKenzie (Chair)		
Caroline Fawcett	9 December 2014	
David Lister	9 December 2014	
Graham Singleton	9 December 2014	
Andrew Wainwright-Brown		31 October 2014
Mark Summerfield		9 December 2014

Remuneration Committee	Date of appointment	Date of resignation
Caroline Fawcett (Chair)	11 December 2014	
David Lister	11 December 2014	
Robert Newton	25 February 2015	

Transformation Committee	Date of appointment	Date of resignation
Graham Singleton (Chair)	11 January 2015	
Alistair Asher	11 January 2015	
Caroline Fawcett	11 January 2015	
David Lister	11 January 2015	

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	25 (25)	-	-
David Davies	18 (25)	5 (6)	-
Mark Summerfield	23 (25)	-	4 (5)
Andrew Wainwright-Brown	19 (20)	5 (5)	4 (4)
Neil McKenzie	25 (25)	6 (6)	5 (5)
Alistair Asher	2 (2)	-	-
David Lister	2 (2)	-	-
Caroline Fawcett	1 (2)	-	-
Graham Singleton	2 (2)	-	-

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 2015.

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 Co-operative Banking Group Limited (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 2014 Co-operative Group Limited annual report will contain details of how the Group, the Banking Group and its subsidiaries, 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.

Compliance with the UK Corporate Governance Code

CISGIL is registered under the Co-operative and Community Benefit Societies Act 2014. As such it is not mandatory for CISGIL to comply with the UK Corporate Governance Code (the Code) published by the Financial Reporting Council. However, where possible and appropriate, CISGIL aims to conform to the key principles of the Code to ensure alignment with good practice.

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 pages 22 to 23.

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.

The Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 ('the Regulations'), requires the directors to prepare accounts for each financial year. In accordance with the Regulations, the directors have elected to prepare CISGIL's accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

In accordance with the 'Co-operative and Community Benefit Society Act 2014', as applied by the Regulations, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of CISGIL and of its profit or loss for that period. In preparing these 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 a going concern basis unless it is inappropriate to presume that CISGIL will continue in business.

The directors are responsible for keeping adequate accounting records that disclose, with reasonable accuracy, at any time the financial position of CISGIL and enable them to ensure that its 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 a Directors' Report that comply 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.

By order of the Board

Pat Wade, Secretary
CIS General Insurance Limited
Miller Street
Manchester
M60 0AL

10 March 2015

Independent auditor's report

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

We have audited the accounts of CIS General Insurance Limited (CISGIL) for the year ended 31 December 2014 set out on pages 16 to 29, in notes E, F, H and I, on pages 35 to 41, and on pages 42 to 63. 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 14, the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounts

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

Opinion on the accounts

In our opinion the accounts:

- give a true and fair view of the state of CISGIL's affairs as at 31 December 2014 and of its loss 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 Co-operative and Community Benefit Societies Act 2014.

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 accounts are prepared is consistent with the accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Co-operative and Community Benefit Societies Act 2014 and the Companies Act 2006 as modified and applied by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 require us to report to you if, in our opinion:

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

Karen Orr (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester, M2 3AE
10 March 2015

Income statement

For the year ended 31 December 2014

All amounts are stated in £m unless otherwise indicated

	Notes	**2014**	2013
Income			
Gross earned premiums		**400.0**	509.0
Less premiums ceded to reinsurers		**(27.4)**	(32.5)
Net earned premiums	2	**372.6**	476.5
Fee and commission income	3	**9.5**	13.3
Investment income	4	**20.6**	27.9
Gains less losses arising from financial instruments	5	**3.0**	13.0
Other operating income	6	**-**	0.3
Net income		**405.7**	531.0
Claims paid		**(364.4)**	(410.0)
Less amounts receivable from reinsurers		**7.8**	6.8
Net policyholder claims and benefits paid	7	**(356.6)**	(403.2)
Change in insurance contract liabilities	21	**91.1**	60.2
Change in reinsurance assets	21	**16.9**	12.2
Net policyholder claims and benefits incurred		**(248.6)**	(330.8)
Fee and commission expenses	8	**(16.7)**	(19.8)
Operating expenses	9	**(143.8)**	(143.3)
Finance costs		**(3.4)**	(3.5)
(Loss)/profit before taxation		**(6.8)**	33.6
Income tax	10	**(0.1)**	(5.9)
(Loss)/profit for the financial year		**(6.9)**	27.7

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

The accounting policies and notes on pages 21 to 63 form part of these financial statements

Statement of comprehensive income

For the year ended 31 December 2014

All amounts are stated in £m unless otherwise indicated

	Notes	**2014**	2013
(Loss)/profit for the financial year		**(6.9)**	27.7
Changes in available for sale assets:			
Net changes in fair value recognised directly in equity		**28.9**	(14.2)
Net gains transferred from equity to the income statement		**(3.0)**	(13.0)
Income tax	22	**(5.5)**	6.3
Other comprehensive income/(expense) for the financial year, net of income tax		**20.4**	(20.9)
Total comprehensive income for the financial year		**13.5**	6.8

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 21 to 63 form part of these financial statements

Balance sheet

At 31 December 2014

All amounts are stated in £m unless otherwise indicated

	Notes	**2014**	2013
Assets			
Property, plant and equipment	11	**0.2**	-
Intangible assets	12	**1.6**	-
Deferred acquisition costs	13	**20.2**	35.3
Reinsurance assets	21	**71.9**	56.8
Financial investments at fair value through income or expense	14	**156.3**	207.6
Available for sale assets	15	**764.6**	763.4
Insurance receivables and other assets	16	**159.2**	208.5
Total assets		**1,174.0**	1,271.6
Capital and reserves attributable to equity holders			
Share capital	18	**268.0**	183.0
Retained earnings	19	**43.0**	49.9
Other reserves	19	**70.4**	50.0
Total equity		**381.4**	282.9
Liabilities			
Insurance contract liabilities	21	**737.6**	866.3
Other borrowed funds	20	**-**	85.0
Deferred tax liabilities	22	**5.6**	5.7
Current tax liabilities	22	**10.6**	4.9
Other reinsurance liabilities	23	**0.5**	-
Insurance and other payables	24	**30.4**	17.9
Bank overdraft	17	**7.9**	8.9
Total liabilities		**792.6**	988.7
Total equity and liabilities		**1,174.0**	1,271.6

Approved by the Board of Directors on 10 March 2015 and signed on its behalf by:

Robert Newton, Chairman
Mark Summerfield, Director
Pat Wade, Secretary

The accounting policies and notes on pages 21 to 63 form part of these financial statements

Registered number 29999R

Statement of cash flows

For the year ended 31 December 2014

All amounts are stated in £m unless otherwise indicated

	Notes	**2014**	2013
Cash flows from operating activities			
(Loss)/profit before taxation		**(6.8)**	33.6
Adjustment for:			
Interest payable		**3.4**	3.5
Amortisation of investments		**(11.9)**	10.4
Decrease/(increase) in deferred acquisition costs		**15.1**	(5.4)
Increase in reinsurance assets		**(15.1)**	(12.0)
Decrease/(increase) in available for sale assets		**36.6**	(27.5)
Decrease in financial investments at fair value through income and expense		**51.3**	106.4
Decrease in insurance receivables and other assets		**49.3**	16.2
Decrease in insurance contract liabilities		**(128.7)**	(162.4)
Increase/(decrease) in other reinsurance liabilities		**0.5**	(2.3)
Increase/(decrease) in insurance and other payables		**12.5**	(4.0)
Income tax received	22	**-**	0.6
Net cash flows from operating activities		**6.2**	(42.9)
Cash flows from investing activities			
Purchase of tangible fixed assets		**(0.2)**	-
Purchase of intangible fixed assets		**(1.6)**	-
Repayment of loans and receivables		**-**	50.0
Net cash flows from investing activities		**(1.8)**	50.0
Cash flows from financing activities			
Interest paid		**(3.4)**	(3.5)
Net cash flows from financing activities		**(3.4)**	(3.5)
Net increase in cash and cash equivalents		**1.0**	3.6
Cash and cash equivalents at the beginning of the financial year		**(8.9)**	(12.5)
Cash and cash equivalents at the end of the financial year	17	**(7.9)**	(8.9)

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 £22.3m (2013: £31.4m).

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

In December 2014, the CISGIL Board approved the issuance of new equity to its immediate parent, The Co-operative Banking Group Limited. Proceeds of the issuance were used to repay subordinated debt of £85.0m owed by CISGIL to The Co-operative Banking Group Limited. There was no cash movement.

The accounting policies and notes on pages 21 to 63 form part of these financial statements

Statement of changes in equity

For the year ended 31 December 2014

All amounts are stated in £m unless otherwise indicated

	Share capital	Available for sale reserve	Capital reserve	Retained earnings	Total
2014					
Balance at the beginning of the financial year	**183.0**	**(7.1)**	**57.1**	**49.9**	**282.9**
Total comprehensive income/(expense) for the financial year:					
Loss for the year	**-**	**-**	**-**	**(6.9)**	**(6.9)**
Other comprehensive income	**-**	**20.4**	**-**	**-**	**20.4**
Transactions with owners:					
Issuance of new share capital	**85.0**	**-**	**-**	**-**	**85.0**
Balance at the end of the financial year	**268.0**	**13.3**	**57.1**	**43.0**	**381.4**

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:					
Profit for the year	-	-	-	27.7	27.7
Other comprehensive income	-	(20.9)	-	-	(20.9)
Balance at the end of the financial year	183.0	(7.1)	57.1	49.9	282.9

The accounting policies and notes on pages 21 to 63 form part of these financial statements

Basis of preparation and significant accounting policies

For the year ended 31 December 2014

CIS General Insurance Limited (CISGIL) is a co-operative society registered in England under the Co-operative and Community Benefit Societies Act 2014 and not a company registered under the Companies Act. The annual report and accounts were authorised for issue by the directors on 10 March 2015.

Statement of compliance

The annual report and accounts have been prepared in accordance with the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which modify and apply the Co-operative and Community Benefit Societies Act 2014. 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) and IFRS Interpretations Committee (IFRIC) guidance, as issued by the International Accounting Standards Board (IASB) and endorsed 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 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 2014.

Standards and interpretations issued and effective

In preparing these annual report and accounts, CISGIL has adopted the following new pronouncement during the year:

- IFRIC 21 (Levies)

  This interpretation provides guidance on when to recognise a liability for a levy imposed by a government. IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. The interpretation clarifies that 'economic compulsion' and the going concern principle do not create or imply that an obligating event has occurred, and allows for the liability to be recognised progressively if the obligating event occurs over a period of time.

  IFRIC 21 is now effective for accounting periods on or after 21 June 2014 with early adoption permitted. The accounting policy in respect of the Financial Services Compensation Scheme (FSCS) levy has changed to reflect the new guidance; this has not resulted in a material financial impact.

Standards and interpretations issued but not yet effective

- IFRS 9 (Financial Instruments)

  This new standard is the IASB's replacement of IAS 39 (Financial Instruments: Recognition and Measurement). The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

  It becomes effective for accounting periods beginning on or after 1 January 2018, with early adoption permitted once endorsed by the EU. CISGIL are still evaluating the impact of this standard but expectation is that, with the exception of additional disclosures, this is likely to be immaterial.

- IFRS 15 (Revenue from Contracts with Customers)

  The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework.

  It becomes effective for accounting periods beginning on or after 1 January 2017, with early adoption permitted once endorsed by the EU. The impact of IFRS 15 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 and significant accounting policies continued
For the year ended 31 December 2014

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 30 to 41 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 pages 42 and 43 provides information on CISGIL's capital policies and capital resources. Details of financial instruments are disclosed in note 29.

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 reported a statutory loss for the year of £6.9m. Moving forward the business forecasts a period of under performance as costs in relation to CISGIL's planned strategic transformation programme are incurred. CISGIL plan to raise additional capital in 2015 in order to finance this transformation.

As can be seen in note 14, CISGIL has significant deposits with credit institutions of £156.3m, considerably in excess of the Board's target minimum liquidity requirement.

As explained on pages 42 and 43, there are a number of regulatory capital requirements with which CISGIL must comply. Total regulatory capital was £344.1m at 31 December 2014, which is in excess of all externally imposed regulatory capital requirements. Current forecasts show that CISGIL's available capital will remain above all these regulatory capital requirements for the foreseeable future., including when solvency II comes into force with effect from 1 January 2016.

While CISGIL has maintained capital above all its regulatory requirements throughout the period, since September 2014 CISGIL has fallen below its 1-in-6 year risk appetite buffer capital requirement. In assessing capital resilience for the period under review, CISGIL has consider a number of stress and reverse stress tests on capital both in the context of restoring capital above risk appetite and maintaining capital above all regulatory requirements. In considering these scenarios, management has identified potential actions that could be taken to improve the capital position if overall solvency is threatened.

CISGIL has identified risks in respect of its transformation programme, the implementation of the Solvency II regulatory regime from 1 January 2016, and Group related risks, as key risks to its going concern status.

The key risk to CISGIL's transformation programme is CISGIL's ability to raise the finance required to fund transformation. Based on the information available to the Board at the current time, including taking external advice, CISGIL is highly confident in its ability to raise additional finance. Until completion however, there remains a risk that events not wholly within the Board's control could impact on the capital being secured. In this eventuality, and CISGIL remains on its existing operating model in the immediate future, CISGIL is forecast to continue to meet all of its capital requirements over the going concern assessment period.

A designated Solvency II programme and plans are in place, targeting compliance with the new regime from 1 January 2016. Forecast solvency projections show that CISGIL maintains its capital buffer when the new regulation comes into force although this makes no allowance for any capital add-ons that the regulator may apply under the new regime. Whilst the size of a potential add-on cannot be predicted, an add-on of similar magnitude to that currently applied under Solvency I would not affect CISGIL's going concern status.

Group risks that could affect the future performance and capital position of CISGIL are primarily a result of the bank separation exercise, notably in respect of the separation activities themselves and the impact on the pension scheme arrangements. For these risks 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 established a committee at Board level and a programme team to lead business transformation. Work is focussing on the design of a new operating model that will facilitate separation from existing shared assets and contracts; and
- As disclosed on page 59, 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, deficit funding and section 75 debts. Management is working closely with the parent companies, 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.

Basis of preparation continued

Going Concern continued

After consideration of the above, and making relevant enquiries of The Co-operative Group Limited (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.

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 21 (b). Additionally further reference is made within the risk management section in relation to insurance risk on pages 35.

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 16 on pages 28 and 29.

1. Property, plant and equipment

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight line basis to allocate the difference between cost and residual value over the estimated useful lives when assets are commissioned for use. Estimated useful lives are as follows:

- computer equipment 3 – 10 years
- furniture and equipment 5 – 10 years.

Assets in the course of construction are only depreciated when they are commissioned for use.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within operating expenses in the income statement.

2. Intangible assets

Intangible assets comprise computer software together with the costs of development of the software.

Acquired computer software licences are capitalised on the basis of cost incurred to acquire and bring the software to use.

Costs that are directly associated with the internal production of software products that will generate future economic benefit are capitalised and recognised as intangible assets in the course of construction. Only costs which meet the definition of development costs under IAS 38 (Intangible Assets) are capitalised, with costs being capitalised only if the costs of the asset can be reliably measured, will generate future economic benefits and there is an ability to use the asset. Expenditure that is not directly attributable to the development of such assets is recognised in the income statement in the period to which it relates.

The expenditure capitalised includes direct employee costs and an appropriate portion of relevant direct overheads. Assets in the course of construction are transferred to computer software and amortised only when they are commissioned for use. Amortisation is charged to the income statement on a straight line basis to allocate the cost over the estimated useful life when commissioned for use, which is between three and ten years.

Significant accounting policies continued

3. 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 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 its 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. 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, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, less impairment provisions for incurred losses.

v. 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. Where there is no active market or the investments are unlisted, the fair values are based on commonly used valuation techniques.

Significant accounting policies continued

3. Financial instruments (excluding derivatives) continued

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.

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 losses on assets classified as available for sale, and those carried at amortised cost, are recognised immediately through the income statement.

The amount of the loss is the difference between:

- the asset's carrying amount (calculated on an amortised cost basis); 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

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.

Significant accounting policies continued

4. Sale and repurchase arrangements

CISGIL participates in reverse sale and repurchase transactions whereby CISGIL buys gilts but is contractually obliged to sell them at a fixed price on a fixed future date. Cash 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. 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 (16i) on page 28.

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.

Significant accounting policies continued

9. Revenue recognition continued

Fee and commission income

Fees and commission receivable mainly relates to fee income, recognised as the related service is provided, and brokerage commission earned over the lifetime of the related policy.

10. 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.

11. 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 in other comprehensive income, 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.

12. Foreign currencies

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

13. Significant items

Items which are material by both size and nature (i.e. 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 costs.

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

Members of the Group may receive a dividend based on their transactions with the 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 (2013: £nil).

15. 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.

Significant accounting policies continued

16. 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.

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.

Significant accounting policies continued

16. Insurance accounting policies continued

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 2014

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 2014

CISGIL has a stand-alone risk management framework which was based on The Co-operative Banking Group Limited (the Banking Group) framework but adapted for CISGIL's risks, governance and processes. During 2014, a number of enhancements to the framework have taken place:

- Enhanced conduct risk management framework – (RMF);
- Added group risk as a principal risk;
- Further embedded suite of risk policies and control standards;
- Refined risk reporting to the Board and Executive Risk Committee;
- Strengthened stand-alone 2nd line risk function; and
- Formalised and improved the risk event reporting and risk acceptance process.

The following section summarises the risk management structures that are in place.

Our approach to risk management

CISGIL operates a three lines of defence governance model to ensure appropriate responsibility and accountability is allocated to the identification, measurement, management, monitoring and reporting 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 the Board's defined risk appetite.

The Chief Risk Officer and 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 the Board.

The Head of Internal audit leads 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 assessment of CISGIL

CISGIL has undertaken a robust assessment of the principal risks facing the company. It has developed its own Risk and Solvency Assessment (ORSA) process, which is an integral part in developing its Strategic Plan. One of the outputs of the ORSA process is the ORSA Report. This report provides a comprehensive picture of the risks that CISGIL is exposed to or could face in the future. These risks are described in detail within the report and summarised on page 33.

The prospects of CISGIL as at 31 December 2014 have primarily been assessed using the latest information (the 2014 year end position) and the 2015 - 2019 Strategic Plan, which was approved by the CISGIL Board in December 2014. Based on this information, CISGIL has adequate capital and liquidity to continue its operation, under old and new regulatory regimes. Indicators which could impact upon its operations have been considered and appropriate management action has been taken where necessary to mitigate issues as identified.

As part of CISGIL's Risk Management Framework, its Executive Team are required to attest that they understand the risks and controls in their area of accountability and support an open risk management culture. In support of the attestation, each Executive and/or Risk Framework Owner is required to undertake a Risk and Control Self-Assessment – which identifies the risks to the achievement of their objectives, the controls against these risks together with an assessment of the effectiveness of the controls (Design and Performance) with appropriate testing of control performance. The Risk and Control Self-Assessments are designed to cover all material controls including financial, operational and compliance controls and also cover the minimum requirements outlined in CISGIL's risk policies and control standards.

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 Chief Executive Officer (CEO) who has, in turn, delegated elements of these discretions to appropriate members of the senior management team.

CISGIL has developed a Delegated Authority Framework setting out the accountabilities delegated by the CEO to the Executive Team members which are reflected within the individual job descriptions of the Executive Team members. Those with delegated authority consider these in conjunction with their responsibilities as Approved Persons and their associated functional accountabilities. The practical application of this framework is documented in the Delegated Authorities Operating Manual.

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 CEO;
- 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.

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.

For the year ended 31 December 2014

All amounts are stated in £m unless otherwise indicated

Risk management committees continued

CISGIL Board Transformation Committee (BTC) (established 2015)

BTC responsibilities include:

- review and challenge Transformation Portfolio activities to ensure performance is in the best interests of key CISGIL stakeholders and aligned to the CISGIL Strategic Plan;
- oversee the overall strategic investment budget and ensure appropriate prioritisation of funding;
- review and oversee the customer journey and customer outcomes throughout transformation;
- monitor, review and challenge performance and forecasts against overall Portfolio benefits and the Strategic Plan; and
- periodically review and approve the mandate of the Transformation Portfolio, in particular ensuring that it has adequate resources to enable it to perform its function effectively.

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 CEO in developing, reviewing and approving detailed risk appetite limits and tolerances as delegated by the Board; and
- ensuring the implementation of the risk strategy set by the Board so as to deliver an effective risk management environment for CISGIL.

CISGIL Transformation Steering Executive Committee (TSEC)

The TSEC responsibilities include:

- overseeing the delivery of the CISGIL Transformation and Business Critical Programmes, reviewing and approving new initiatives;
- recommending approval for changes to timescales, costs, quality, scope, risks and benefits; including material drawdown requests;
- proactively managing risks and issues, highlighting thematic hotspots and initiating mitigating action plans;
- overseeing the overall strategic investment budget;
- overseeing the efficient and effective use of GI resources, by monitoring demand to ensure successful delivery of the Roadmap;
- oversight of the CISGIL Benefits Realisation tracking plans; and
- ensuring design decisions consider the implications on both the New Solution and current CISGIL operating model.

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 CEO 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 CEO in approving Risk Policies, proposing Risk Appetite limits and tolerances to 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;

All amounts are stated in £m unless otherwise indicated

Risk management committees continued

CISGIL Executive Risk Committee (ERC) continued

- supporting the CEO 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 CEO and members of the senior management team in carrying out their responsibilities, and provide detailed oversight and monitoring in the following areas:

- Customer and Operations;
- Conduct Risk Steering;
- Commercial;
- Capital, Liquidity, Investment and Pension;
- Reserving;
- Operational Risk;
- Data Governance; and
- Model Governance.

Principal risks

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

	Risk Type	Definition	Page
A	Strategic and business risk*	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	34
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	34
C	Conduct risk*	The risk that CISGIL's behaviours, offerings or interactions will result in unfair outcomes for customers	34
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	34
E	Insurance risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities	35
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	36
G	Operational risk*	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events	37
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	38
I	Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations	39
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	41
K	Group risk*	The risks that arise through being part of The Co-operative Group	41

For each of the principal risks, CISGIL appoints a Risk Framework Owner (RFO) and a risk framework must be defined and documented. The framework includes Board 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.

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

Principal risks continued

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 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 Board. The Board have approved a strategic transformation programme to ensure the business model can respond to the technology driven changing insurance market.

B. Reputation risk (unaudited)

Reputational 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 PR.

As part of the assessment and control of this risk, our business performance and risk profile across all of our risk types 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 Operational Risk Committee, ERC and Board.

During the first half of 2014, media coverage associated with reputational issues faced by The Co-operative Group Limited (the Group) led to brand impairment for CISGIL. Since the Group AGM in May 2014, the media profile has improved. The Co-operative Group has now established its recovery strategy which has resulted in an improved brand position, and levels of risk to the brand through group contagion have continued to reduce.

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 maintain the highest standards in our conduct and treatment of customers and the quality of our customer experience through the operation of a robust Conduct Risk Strategy and framework and the application of systems and controls in conjunction with ongoing oversight and monitoring from risk functions. These established systems and controls mitigate and prevent emerging conduct risk.

During 2014, improvements were made in the control of Conduct Risk including; implementation of Conduct Risk & MI Reporting, Risks and Issues Register, roll out of conduct risk training. A new Product Governance Forum was established to oversee and govern the product throughout its lifecycle. The establishment of a monthly executive Conduct Risk Steering Committee in 2014 ensures the timely identification, measurement, management, monitoring and reporting of conduct risks through management structures and to the ERC and Board.

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 ERC and Board.

Principal risks continued

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 attritional claims and from natural or man-made catastrophe events.

The main classes of business written are private motor and home business, written directly or through brokers. In addition CISGIL writes some commercial insurance business, which is fully reinsured, and continues to manage some business that is now in run off, including a commercial account, commercial motor business and pet insurance. Almost all risks under general insurance policies cover a 12 month duration.

Principal risks under motor policies are bodily injury to third parties, accidental damage to property including policyholders' and third parties' vehicles, and theft of or from policyholders' vehicles. 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.

Principal risks under home policies are damage from storm and flood, fire, escape of water, subsidence, theft of or accidental damage to contents and liability risks.

CISGIL's aims to manage insurance risk:

- to achieve acceptable profits and return on equity 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;
- to minimise reserve risk volatility through robust reserving and modelling approaches; and
- to mitigate catastrophe risk 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.

The overriding objective in claims handling is to ensure all claims are properly scrutinised and paid where they fall within the terms and conditions of the policy. The proper scrutiny of claims is facilitated by the use of various technical aids such as weather validation and fraud databases, and the use of claims specialists. The basis for assessing claims provisions is set out in note 21.

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 supports the Finance Director in their responsibility to formally review claims reserves on a quarterly basis.

CISGIL uses reinsurance to manage insurance risk, and in particular to mitigate the cost of catastrophe events such as storms and floods and the cost of large claims arising within its motor account. The appropriate level of reinsurance is determined by management, using CISGIL's capital model to inform decision making. In 2014 CISGIL had two main reinsurance programmes in place: catastrophe excess of loss cover and motor excess of loss cover. Other reinsurances include the 100% reinsurance of the commercial insurance business being written by CISGIL, mentioned above.

In March 2014, a Part VII transfer was completed to transfer the general insurance business that had been written by Co-operative Insurance Society Limited (CISL) to CISGIL. CISGIL commenced underwriting business in January 2006. Prior to this the general insurance business was underwritten by CIS, a composite insurer writing both life and general insurance business. An indemnification arrangement was implemented at that time whereby CISGIL assumed financial responsibility for the run off of this business and received a premium, settled by transfer of assets, equivalent to the net technical liabilities of this business included in CIS's financial statements at 2005 year end. CIS was subsequently sold to Royal London Group, as part of the sale of the life and savings business, and became a subsidiary of Royal London. The Part VII transfer transferred the general insurance business within that subsidiary to CISGIL, hence CISGIL now has direct financial responsibility for this run off business, rather than via an indemnification agreement.

Insurance risk sensitivity analysis can be found in Note 21 b iii on page 54.

For the year ended 31 December 2014

All amounts are stated in £m unless otherwise indicated

Principal risks continued

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 in high-quality fixed and variable interest bonds issued by corporations ('corporate bonds') and the UK government ('gilts'), 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 for economic capital. However, IFRS short term insurance reserves (normally less than five years) are not directly affected by market interest-rates as they are undiscounted.

In December 2014, capital quality was improved through the issuance of new equity to its immediate parent, The Co-operative Banking Group Limited. Proceeds of the issuance were used to repay the existing £85.0m subordinated debt to its immediate parent. This removed the interest rate risk upon £65.0m of this debt, which previously paid interest based on three month LIBOR. There was no interest rate risk on the remaining £20.0m as it paid a fixed interest rate.

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.

While CISGIL is not a participating employer, it has an agreement to pay pension contributions relating to staff employed by CFSMS that are assigned to work for CISGIL. This means that CISGIL is indirectly exposed to market risks (including interest rate, credit spread, equity and property), through The Co-operative Group pension scheme (PACE), to which CISGIL contributes.

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; and
- movements in credit-spreads which impact the market value of corporate bonds

Objective and strategy

CISGIL's objective is to achieve acceptable returns through the use of highly rated UK government and corporate bonds while minimising 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 Investment Management (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 Capital, Liquidity, Investment and Pension Committee supports the Finance Director to oversee RLAM, monitor and manage asset exposures against the strategic asset allocation and approved investment 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 collateralised on a daily basis. The Capital, Liquidity, Investment and Pension Committee supports the Finance Director in overseeing the monitoring and management of these risks and exposures against limits.

Risk management continued

For the year ended 31 December 2014

All amounts are stated in £m unless otherwise indicated

Principal risks continued

F. Market risk continued

Objective and strategy continued

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 the average duration 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 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. Mean durations are:

	2014	2013
Adopted insurance liabilities	**2.84 years**	3.20 years
Financial assets	**2.35 years**	2.53 years

	Amount (£m)	Duration
Periodical payments		
Insurance liabilities	**20.5**	17.9 years
Financial assets	**49.2**	16.5 years
EIROS claims		
Insurance liabilities	**2.3**	10.9 years
Financial assets	**3.2**	14.1 years

Sensitivity analysis

Currently, 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 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 £22.9m (2013: £17.9m). 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 £18.0m net of tax (2013: £13.7m). 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% (2013: 24%) using CISGIL capital model.

G. Operational risk (unaudited)

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events and 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 and is supported by underlying control standards:

- Financial Reporting Risk
- Model Risk
- Technology Risk

All amounts are stated in £m unless otherwise indicated

Principal risks continued

G. Operational risk (unaudited) continued

- 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 (BCP)
- Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF)

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 Operational Risk Committee. Significant operational risks are reported to the ERC and Board.

During 2014, the separation of The Co-operative Bank Limited (the Bank) from the Group presented a number of risks to CISGIL including; continuity of service, technology service provision, data access, governance structures of CFS Management Services Limited/the Banking Group. A programme is underway to separate CISGIL's IT from an infrastructure that is currently shared with the Banking Group and Royal London Group. Business continuity arrangements are in place in order to minimise the risk of disruption in the event of a sudden, unplanned occurrence that could seriously disrupt business operations. This includes developing and exercising crisis and incident management teams to maintain appropriate preparedness in the event of a major operational disruption.

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 policyholder and other funding obligations as they fall due primarily through the use of cash and highly liquid UK government and corporate bonds.

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 UK 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 UK windstorm as £136.0m (2013: £147.0m), giving a minimum requirement for £27.2m (2013: £29.4m) of liquid assets against actual liquid assets of £673.9m (2013: £763.6m).

Liquid assets are considered to be:

Asset type		Value included as liquid assets
Gilts		**100%**
Cash		**100%**
Corporate bonds:	AAA	**85%**
	AA	**85%**
	A	**50%**
	BBB	**50%**
All other investments		**0%**

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

The following table indicates the time profile of undiscounted cash flows arising from financial liabilities (based upon contractual maturity), and insurance liabilities (based upon estimated timing of amounts recognised in the balance sheet). Included in the analysis on insurance contract liabilities below is £47.3m (2013: £40.0m) of discounted reserves relating to PPO and EIROS. Further details are included in note 21.

Risk management continued

For the year ended 31 December 2014

All amounts are stated in £m unless otherwise indicated

Principal risks continued

H. Liquidity risk continued

As at 31 December 2014	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
Insurance contract liabilities	**737.6**	**737.6**	**403.9**	**115.0**	**69.0**	**44.6**	**28.5**	**76.6**
Financial liabilities at amortised cost:								
Other reinsurance liabilities	**0.5**	**0.5**	**0.5**	**-**	**-**	**-**	**-**	**-**
Insurance and other payables	**30.4**	**30.4**	**30.4**	**-**	**-**	**-**	**-**	**-**
Cash and cash equivalents	**7.9**	**7.9**	**7.9**	**-**	**-**	**-**	**-**	**-**
	776.4	**776.4**	**442.7**	**115.0**	**69.0**	**44.6**	**28.5**	**76.6**
Other liabilities	**16.2**							
Total recognised liabilities	**792.6**							

As at 31 December 2013	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
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							

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 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; and
- default or delay in repayment of loans and receivables.

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 by the Capital, Liquidity, Investment and Pension Committee. Where concern exists over reinsurer credit quality, watch lists are maintained and actively managed.

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. CISGIL's policy for making provisions for possible impairment is described within the accounting policy section on page 25. Credit ratings are determined by taking an average of ratings provided by Moody's Investors Service, Standard & Poor's and Fitch.

For the year ended 31 December 2014

All amounts are stated in £m unless otherwise indicated

Principal risks continued

I. **Credit risk** continued

As at 31 December 2014	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)	**-**	**156.3**	**-**	**-**	**-**	**156.3**
Available for sale assets:						
Listed debt (fixed rate)	**100.2**	**245.7**	**287.1**	**82.6**	**-**	**715.6**
Listed debt (variable rate)	**-**	**-**	**36.8**	**12.2**	**-**	**49.0**
Reinsurance assets	**-**	**31.9**	**37.0**	**-**	**3.0**	**71.9**
Insurance receivables and other assets	**1.6**	**2.0**	**5.1**	**1.5**	**149.0**	**159.2**
	101.8	**435.9**	**366.0**	**96.3**	**152.0**	**1,152.0**
Assets not subject to credit risk						**22.0**
						1,174.0

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
Loans and receivables at amortised cost	-	-	-	-	-	-
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

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, in the form of gilts, of £143.5m (2013: £178.8m) is held as part of a reverse repo transaction with a cash balance of £147.0m as at 31 December 2014 (2013: £180.0m). Cash collateral pledged sits within deposits with approved credit institutions within financial investments at fair value through income or expense on the balance sheet.

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 2014	Up to 1 year	1 to 5 years	5 to 10 years	Total
France	**-**	**7.1**	**-**	**7.1**
Germany	**-**	**30.1**	**-**	**30.1**
Netherlands	**9.1**	**38.6**	**-**	**47.7**
Spain	**-**	**21.8**	**-**	**21.8**
Sweden	**-**	**70.1**	**-**	**70.1**
	9.1	**167.7**	**-**	**176.8**

All amounts are stated in £m unless otherwise indicated

Principal risks continued

Eurozone risk continued

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
	-	118.8	62.7	181.5

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.

While CISGIL is not a participating employer, it has an agreement to pay pension contributions relating to staff employed by 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), a defined benefit scheme. The PACE trustee, in consultation with the 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.

In CISGIL's accounts, the scheme is treated as a defined contribution scheme due to the multi-employer exemption. However, CISGIL is exposed to potential future increases in required contributions and capital is set aside for this. The impact of which is assessed under CISGIL's risk management framework and internal economic assessment of solvency, including the ICA. Costs arise through future accruals contribution, deficit repair contributions, expenses and potential employer debt under Section 75 of the Pensions Act. CISGIL engages with the Group to actively manage the volatility in the pension funding position by continuous monitoring, adjustments to scheme contributions, engagement of external advisors and review of investment and pension strategies.

During 2014, risks in the pension scheme were reduced through improving interest rate matching and reducing exposure to equity values.

K. Group risk (unaudited)

Group risk is defined as the risks that arise through being part of The Co-operative Group. Group risk includes elements of Reputation, Operational and Pension risks as per the sections above. CISGIL currently receives operational resources and certain services from Group through CFSMS. CISGIL is therefore subject to third party supplier risk of managing CFSMS and Group as intergroup suppliers. CISGIL ensures clear identification of Group risks and actively engages with the Group to ensure that Group risks are appropriately managed in a robust control environment.

Capital management

For the year ended 31 December 2014

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, thus ensuring that policyholders are protected and also that the Board's risk appetite is met; and
- subject to the above objectives being met, it makes the required 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: The ICA is an economic risk-based assessment of CISGIL's capital requirements using CISGIL's internal 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 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 Prudential Regulation Authority (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. In September 2014, the PRA provided CISGIL with an updated ICG, as a result of CISGIL's ICA submission in May 2014.

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 requirement).

Capital requirements under the ICA and ICG are significantly in excess of the published MCR as they are set at a higher confidence level, and also reflect the specific risk-profile of the Issuer.

CISGIL Board sets capital risk appetite, which defines how much additional capital ('buffer capital') CISGIL should hold over and above its most onerous regulatory capital requirement. The risk appetite is currently to aim to hold a buffer at least sufficient to meet a 1-in-6 year event and to target a buffer sufficient to meet a 1-in-10 year event. Based on this risk appetite CISGIL currently aims to hold buffer capital equivalent to at least 31% of ICA, with a target equivalent to 38%. The risk appetite is reviewed periodically and while it is anticipated that the key tests referred to above will remain constant, the actual required buffer capital may change in the future as CISGIL's Internal Model is updated, including to reflect changes in CISGIL's risk exposure, and as CISGIL moves from an ICA basis to Solvency II.

Capital management continued

For the year ended 31 December 2014

All amounts are stated in £m unless otherwise indicated

Required capital continued

a. Regulatory required capital continued

The ICA capital requirement is determined by reference to the risks faced by the business. Consequently, it is possible to reduce capital requirements by executing actions that reduce risk, albeit often resulting in reduced returns. Management have identified potential actions which fall into three main categories:

- Actions to reduce insurance risk through reinsurance for future large claims or catastrophe and adverse development cover for existing reserves. These actions will reduce the potential volatility of CISGIL's results, thus having a positive impact on capital requirements;
- Actions to reduce other types of risk – for example, de-risking the investment portfolio; and
- Actions that would require an increased risk appetite – for example, holding a smaller margin over best estimate in claims reserves.

Actions are available in the first two categories for implementation later within 2015. No actions are being taken that would require an increased risk appetite as this is not felt to be appropriate at this time.

CISGIL has improved the overall quality of its capital base through the issuing of £85m of equity (tier one capital), the proceeds of which have been used to repay existing tier two capital subordinated loans.

While CISGIL has maintained capital above all its regulatory requirements throughout the period, since September 2014 CISGIL has fallen below its 1-in-6 year risk appetite buffer capital requirement. Additional capital is required to ensure CISGIL remains within risk appetite over the 2015-2019 Financial Plan period, and to ensure the success of the transformation programme which will also impact on the capital base of the company. CISGIL is seeking a capital injection in the first half of 2015 to address this.

CISGIL reviews solvency continuously through weekly, or when appropriate daily, monitoring. Monthly reports are provided to the Executive Risk Committee and Board.

b. Capital composition

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

	2014	2013
Capital and reserves per the financial statements	**381.4**	282.9
Subordinated debt	**-**	85.0
Inadmissible assets	**(6.2)**	(1.8)
Statutory claims equalisation reserve	**(29.6)**	(30.1)
Discounting on technical provisions	**(1.5)**	(0.9)
Regulatory capital	**344.1**	335.1

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 due 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 capital model to calculate the SCR.

Notes to the annual report and accounts

All amounts are stated in £m unless otherwise indicated

1. Segmental analysis

The business segments of CISGIL are presented in line with the management information as reported to the Chief Executive Officer, 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 and motor fleet. Other minor personal risks, pet, run off of inwards reinsurance liabilities, Financial Services Compensation Scheme levies and finance costs.

Segmented income statement for the year ended 31 December 2014	Motor	Home	Other	Total
Net earned premiums	**233.3**	**137.5**	**1.8**	**372.6**
Net claims incurred	**(182.2)**	**(57.1)**	**(9.3)**	**(248.6)**
Net commission (expenses)/income	**(3.0)**	**(5.8)**	**1.6**	**(7.2)**
Operating expenses	**(81.9)**	**(53.3)**	**(2.4)**	**(137.6)**
Net investment return	**18.5**	**3.3**	**0.6**	**22.4**
Other expenses	**(6.8)**	**(1.4)**	**(0.2)**	**(8.4)**
Segmented operating (loss)/profit	**(22.1)**	**23.2**	**(7.9)**	**(6.8)**

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)/income	(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	-	-	(7.2)	(7.2)
Segmented operating profit/(loss)	13.5	32.7	(12.6)	33.6

All amounts are stated in £m unless otherwise indicated

1. Segmental analysis continued

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.

	2014	2013
Operating expenses		
Total operating expenses for reportable segments	(137.6)	(138.3)
Items reported as significant within management information	(6.0)	(1.3)
Reclassification of investment expenses	(1.2)	(1.3)
Financial Services Compensation Scheme levies	1.0	(2.4)
Operating expenses	(143.8)	(143.3)

	2014	2013
Commission expenses		
Total commission expenses for reportable segments	**(7.2)**	(6.5)
Reclassification of commission income	**(9.5)**	(13.3)
Fee and commission expenses	**(16.7)**	(19.8)
Other expenses is made up of:		
Financial Services Compensation Scheme levies	**1.0**	(2.4)
Items reported as significant within management information	**(6.0)**	(1.3)
Finance costs	**(3.4)**	(3.5)
	(8.4)	(7.2)
Investment return		
Total investment return for reportable segments	**22.4**	39.9
Reclassification of investment expenses	**1.2**	1.3
Reclassification of other operating income	**-**	(0.3)
Investment return (analysed as below in the income statement)	**23.6**	40.9
Investment income	**20.6**	27.9
Gains less losses arising from financial instruments	**3.0**	13.0
	23.6	40.9

2. Net earned premiums

	2014	2013
Gross premiums		
Gross written premiums	**365.2**	443.6
Change in unearned premium provision	**34.8**	65.4
Gross earned premiums	**400.0**	509.0
Outward reinsurance premiums		
Premiums ceded	**(25.7)**	(32.3)
Change in unearned premium provision	**(1.7)**	(0.2)
Premiums ceded to reinsurers	**(27.4)**	(32.5)
Net earned premiums	**372.6**	476.5

All amounts are stated in £m unless otherwise indicated

3. Fee and commission income

	2014	2013
Fee income	**6.5**	8.7
Reinsurance commission earned	**2.3**	3.7
Other commission	**0.7**	0.9
	9.5	13.3

Fee income is in respect of brokerage commission and one-off fee income primarily in respect of policy adjustments.

4. Investment income

	2014	2013
Interest and similar income from assets held at fair value through income or expense:		
Deposits with credit institutions	**0.7**	1.2
	0.7	1.2
Interest income (calculated using Effective Interest Rate) from available for sale assets:		
Listed debt securities	**19.9**	26.7
	20.6	27.9

5. Gains less losses arising from financial instruments

	2014	2013
Net gains arising on financial assets:		
Available for sale listed debt securities	**3.0**	13.0
	3.0	13.0

6. Other operating income

Other operating income includes £nil (2013: £0.3m) of interest income in respect of a loan to The Co-operative Group Limited. In February 2013 the Group repaid this loan in full.

7. Net policyholder claims and benefits paid

	2014	2013
Gross claims paid		
Current year claims	**136.7**	154.1
Prior year claims	**253.1**	282.6
Gross claims paid	**389.8**	436.7
Less salvage and subrogation		
Current year claims	**(10.7)**	(10.2)
Prior year claims	**(14.7)**	(16.5)
Salvage and subrogation received	**(25.4)**	(26.7)
Claims paid	**364.4**	410.0
Less amounts receivable from reinsurers		
Current year claims	**(4.0)**	(4.2)
Prior year claims	**(3.8)**	(2.6)
Amounts receivable from reinsurers	**(7.8)**	(6.8)
Net policyholder claims and benefits paid	**356.6**	403.2

8. Fee and commission expenses

	2014	2013
Commission paid	**16.1**	18.5
Change in deferred commission	**0.6**	1.3
	16.7	19.8

9. Operating expenses

	2014	2013
Administration expenses	**90.7**	93.4
Acquisition expenses	**47.1**	49.9
Costs related to the transformation programme	**6.0**	-
	143.8	143.3

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 28.

Included within the recharge is £5.9m (2013: £7.6m) paid by CISGIL in respect of its share of regular pension contributions, which includes £1.9m (2013: £2.0m) 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:

	2014 £'000	2013 £'000
Audit of these financial statements	**173**	130
Amounts receivable by CISGIL's auditor and its associates in respect of:		
Audit-related assurance services	**79**	61
Other assurance services	**194**	33
	446	224

Audit-related assurance services are in respect of the audit of regulatory returns and half year review of interim financial information for consolidation into Interim Report for The Co-operative Group. Other assurance services relates to assurance reporting on CISGIL's preparation for Solvency II.

10. Income tax

	2014	2013
Current tax		
UK tax for the current year	**0.2**	7.5
UK tax adjustments in respect of prior years	**-**	(0.9)
Total current tax charge	**0.2**	6.6
Deferred tax		
Origination and reversal of temporary differences	**(0.1)**	0.1
Effect of tax rate change	**-**	(0.8)
Total deferred tax credit	**(0.1)**	(0.7)
Total tax charge recognised in the income statement	**0.1**	5.9

Further information about deferred income tax is presented in note 22.

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:

	2014	2013
Profit before taxation	**(6.8)**	33.6
Tax calculated at domestic corporation tax rate of 21.49% (2013: 23.25%)	**(1.5)**	7.8
Effect of:		
Tax rate change on deferred tax	**-**	(0.9)
Other adjustments	**1.6**	(1.0)
Income tax charge	**0.1**	5.9

Other adjustments includes expenses not deductible for tax purposes and payment and surrender of group relief.

11. Property, plant and equipment

	Fixtures & Fittings	**Assets in course of construction**	**Total**
2014			
Cost			
At the beginning of the financial year	**-**	**-**	**-**
Additions	**0.4**	**0.1**	**0.5**
Disposals	**(0.1)**	**-**	**(0.1)**
At the end of the financial year	**0.3**	**0.1**	**0.4**
Depreciation			
At the beginning of the financial year	**-**	**-**	**-**
Depreciation charge for the financial year	**0.2**	**-**	**0.2**
Disposal	**-**	**-**	**-**
At the end of the financial year	**0.2**	**-**	**0.2**
Carrying amount			
At the end of the financial year	**0.1**	**0.1**	**0.2**
At the beginning of the financial year	**-**	**-**	**-**

During 2014 £0.5m of tangible assets were transferred from CFSMS, a fellow subsidiary of Co-operative Banking Group Limited. No profit or loss arose on the transfer of the assets.

All amounts are stated in £m unless otherwise indicated

12. Intangible Assets

	Computer Software	Assets in course of construction	Total
2014			
Cost			
At the beginning of the financial year	-	-	-
Additions	-	1.6	1.6
Disposals	-	-	-
Transfers	0.1	(0.1)	-
At the end of the financial year	0.1	1.5	1.6
Amortisation			
At the beginning of the financial year	-	-	-
Amortisation charge for the financial year	-	-	-
Revaluation	-	-	-
At the end of the financial year	-	-	-
Carrying amount			
At the end of the financial year	0.1	1.5	1.6
At the beginning of the financial year	-	-	-

£1.6m of intangible assets include £1.4m that were transferred during the year from CFSMS, a fellow subsidiary of Co-operative Banking Group Limited. No profit or loss arose on the transfer of the assets.

13. Deferred acquisition costs

	2014	2013
At the beginning of the financial year	35.3	29.9
Deferred acquisition costs	46.7	70.4
Amortisation	(61.8)	(65.0)
At the end of the financial year	20.2	35.3

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

14. Financial investments at fair value through income or expense

	2014	2013
Deposits with credit institutions	156.3	207.6

All amounts in the current and prior year are expected to be recovered within one year. Within the above are reverse repo balances of £147.0m (2013: £180.0m). Collateral of £147.0m is held as security against this balance (2013: £178.8m). Please see the credit risk note on pages 39 to 41 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.

15. Available for sale assets

	2014	2013
Listed debt securities - fixed rate	715.6	720.0
Listed debt securities - floating rate	49.0	43.4
	764.6	763.4

At 31 December 2014, debt securities of £661.3m (2013: £670.4m) are expected to be recovered more than 12 months after the reporting date.

All amounts are stated in £m unless otherwise indicated

16. Insurance receivables and other assets

	2014	2013
Receivables arising from insurance:		
Arising from insurance operations	**118.4**	100.0
Salvage and subrogation recoveries	**21.8**	24.5
Reinsurance operations	**0.7**	1.2
Other receivables:		
Accrued interest	**10.9**	12.6
Amounts receivable from Group companies	**7.0**	6.8
Prepayments	**0.4**	-
Investment receivables	**-**	63.4
	159.2	208.5

No amounts are due after more than one year.

Receivables arising from insurance operations are stated net of an impairment provision of £0.3m (2013: £0.5m). 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 £13.1m (2013: £13.3m) which are overdue; amounts overdue but not impaired are £12.8m (2013: £12.8m), being the overdue amount net of the impairment provision detailed above. £0.7m (2013: £1.1m) of amounts overdue primarily represent debts due from brokers and intermediaries which are considered fully recoverable. Amounts overdue are age analysed as follows:

	2014	2013
Amounts overdue:		
Less than 3 months	**12.7**	12.2
3 to 6 months	**0.1**	-
6 to 12 months	**0.3**	1.1
More than 12 months	**-**	-

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.

17. 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.

18. Share capital

	2014	2013
Authorised	**268.0**	183.0
Issued and fully paid		
268,000,000 ordinary shares of £1 each	**268.0**	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.

During 2014, a total of 85,000,000 ordinary shares of £1 each were issued and fully paid at par.

All amounts are stated in £m unless otherwise indicated

19. Retained earnings and other reserves

	2014	2013
Retained earnings		
At the beginning of the financial year	**49.9**	22.2
(Loss)/profit for the year	**(6.9)**	27.7
At the end of the financial year	**43.0**	49.9

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 £70.4m (2013: £50.0m) 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 20.

20. Other borrowed funds

	2014	2013
Floating rate subordinated notes 2021	**-**	35.0
Floating rate perpetual subordinated notes	**-**	30.0
Fixed rate perpetual subordinated notes	**-**	20.0
	-	85.0

In December 2014, the following subordinated notes were repaid to the immediate parent company, The Co-operative Banking Group Limited:

Floating rate subordinated notes 2021

The notes were issued on 15 January 2006 at par.

Floating rate perpetual subordinated notes

The notes were issued in 2 tranches, £20m issued on 30 July 2007, followed by a further £10m on 15 August 2007.

Fixed rate perpetual subordinated notes

The notes were issued on 30 November 2011 at par.

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

Finance costs incurred during the financial period include £3.2m (2013: £3.3m) in relation to interest on the subordinated debt.

All amounts are stated in £m unless otherwise indicated

21. Insurance contract liabilities and reinsurance assets

a. Analysis of insurance contract liabilities

	2014	2013
Gross		
Claims reported	**406.7**	495.3
Claims incurred but not reported	**135.1**	144.9
Claims settlement expenses	**12.6**	16.7
Unearned premiums	**172.4**	207.2
Unexpired risk provision	**10.8**	2.2
Total gross insurance liabilities	**737.6**	866.3
Recoverable from reinsurers		
Claims reported	**(39.2)**	(23.2)
Claims incurred but not reported	**(32.3)**	(31.5)
Unearned premiums	**(0.4)**	(2.1)
Total reinsurers' share of insurance liabilities	**(71.9)**	(56.8)
Net		
Claims reported	**367.5**	472.1
Claims incurred but not reported	**102.8**	113.4
Claims settlement expenses	**12.6**	16.7
Unearned premiums	**172.0**	205.1
Unexpired risk provision	**10.8**	2.2
Total net insurance liabilities	**665.7**	809.5

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

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 2013 included £63.5m of gross liabilities from the policies underwritten by CISL. These policies were formally novated by the Part VII transfer to CISGIL on 31 March 2014. Consequently, the analysis in note 21 (v) shows claims development of all general insurance liabilities.

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.

21. Insurance contract liabilities and reinsurance assets continued

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

i. Basis of assessing liabilities continued

The chain ladder method can be 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 exposure within the electric industry ('EIROS' claims).

Discounted reserves in respect of periodic payment settlements are £21.4m (2013: £23.8m) and EIROS discounted reserve amounts to £3.8m (2013: £2.7m). Further details around expected settlement patterns for claims arising on these reserves are disclosed within the insurance risk section on page 35.

The EIROS reserve was based on a report produced for the industry at the end of 2013, by Towers Watson an actuarial consultancy. This 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 CISGIL calculated its year end 2014 reserves.

In respect of business yet to be earned, the adequacy of the premium to cover future claims costs and expenses was assessed to determine the requirement for an Unexpired Risk Provision (URP) by comparing the discounted premium and outgoings. As at the end of 2014 CISGIL held an URP of £10.8m (2013: £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:

- Allowance for future inflation rates being different to those 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 12th 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

21. Insurance contract liabilities and reinsurance assets continued

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

ii. Key assumptions continued

Change in general insurance liabilities and reinsurance assets

The gross insurance provision for claims and loss adjustment expenses arising in respect of prior years of £392.7m (2013: £427.1m) includes a movement of £10.9m (2013: £47.3m) arising from an release of reserves, as follows:

	2014	2013
Fire and Accident (increase)/release of reserves	(4.2)	7.2
Motor release of reserves	19.1	42.8
(Increase) in claims handling reserves	(4.0)	(2.7)
Movement in gross insurance liabilities	10.9	47.3

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.

2014	Change in parameter	Effect on gross provision	% Effect
Assumption			
Motor			
Average cost of claims for last three years - bodily injury and legal	10%	47.1	11.4%
Mean term to settlement - bodily injury and legal	+½ year	8.1	2.0%
Rate of future inflation - bodily injury and legal	1%	12.6	3.1%
Ogden discount rate - bodily injury	-¼%	3.8	0.9%
Other classes			
Mean term to settlement (liability)	+½ year	0.6	2.1%
Mean term to settlement (non-liability)	+½ year	0.6	1.5%
Rate of future inflation (liability)	1%	1.7	6.4%
Rate of future inflation (non-liability)	1%	0.5	1.2%

2013	Change in parameter	Effect on gross provision	% Effect
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%

All amounts are stated in £m unless otherwise indicated

21. Insurance contract liabilities and reinsurance assets continued

c. Change in general insurance liabilities and reinsurance assets

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

	Gross	Unexpired risk provision	Salvage & subrogation	Net
2014				
At the beginning of the year	**656.9**	**2.2**	**(24.5)**	**634.6**
Movement in the year	**(102.4)**	**8.6**	**2.7**	**(91.1)**
At the end of the year	**554.5**	**10.8**	**(21.8)**	**543.5**

	Gross	Unexpired risk provision	Salvage & subrogation	Net
2013				
At the beginning of the year	**756.1**	**-**	**(61.4)**	**694.7**
Movement in the year	**(99.3)**	**2.2**	**36.9**	**(60.2)**
At the end of the year	**656.9**	**2.2**	**(24.5)**	**634.5**

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

ii. Claims and loss adjustment expenses

	Gross 2014	Reinsurance 2014	Net 2014	Gross 2013	Reinsurance 2013	Net 2013
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 beginning of the year	**656.9**	**(54.7)**	**602.2**	756.1	(42.5)	713.6
Claims paid during the year	**(389.8)**	**7.8**	**(382.0)**	(436.7)	6.8	(429.9)
Increase/(decrease) in liabilities:						
Arising from current year claims	**298.3**	**(8.9)**	**289.4**	384.7	(17.2)	367.5
Arising from prior year claims	**(10.9)**	**(15.8)**	**(26.7)**	(47.3)	(1.8)	(49.1)
Total movement	**(102.4)**	**(16.9)**	**(119.3)**	(99.3)	(12.2)	(111.5)
Claims reported	**406.7**	**(39.2)**	**367.5**	495.3	(23.2)	472.1
Claims incurred but not reported	**135.1**	**(32.3)**	**102.8**	144.9	(31.5)	113.4
Claims settlement expenses	**12.6**	**-**	**12.6**	16.7	-	16.7
At the end of the year	**554.4**	**(71.5)**	**482.9**	656.9	(54.7)	602.2

iii. Provisions for unearned premiums

	Gross 2014	Reinsurance 2014	Net 2014	Gross 2013	Reinsurance 2013	Net 2013
At the beginning of the year	**207.2**	**(2.1)**	**205.1**	272.6	(2.3)	270.3
Increase in the year	**365.2**	**(25.7)**	**339.5**	443.6	(32.3)	411.3
Release in the year	**(400.0)**	**27.4**	**(372.6)**	(509.0)	32.5	(476.5)
Movement in the year	**(34.8)**	**1.7**	**(33.1)**	(65.4)	0.2	(65.2)
At the end of the year	**172.4**	**(0.4)**	**172.0**	207.2	(2.1)	205.1

All amounts are stated in £m unless otherwise indicated

21. Insurance contract liabilities and reinsurance assets continued

iv. Unexpired risk provision

	Gross 2014	**Reinsurance 2014**	**Net 2014**	Gross 2013	Reinsurance 2013	Net 2013
At the beginning of the financial year	**2.2**	**-**	**2.2**	-	-	-
Increase in the financial year	**10.8**	**-**	**10.8**	2.2	-	2.2
Release in the financial year	**(2.2)**	**-**	**(2.2)**	-	-	-
Movement in the financial year	**8.6**	**-**	**8.6**	2.2	-	2.2
At the end of the financial year	**10.8**	**-**	**10.8**	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 29.

v. Analysis of claims development

	Accident year											
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	**2014**	**Total**
Gross of reinsurance												
At end of the accident year:	550.5	480.1	419.3	384.5	347.3	325.9	411.3	497.0	502.1	368.1	**284.7**	**4,570.8**
One year later	527.1	468.3	412.1	387.8	319.7	333.1	455.4	530.2	473.3	346.9		**4,253.9**
Two years later	495.3	439.9	402.6	378.3	310.2	340.5	480.1	527.4	473.0			**3,847.3**
Three years later	467.2	414.0	393.5	364.2	300.3	328.7	465.5	518.1				**3,251.5**
Four years later	450.3	422.8	387.1	367.0	296.7	320.0	456.3					**2,700.2**
Five years later	453.9	418.6	387.7	366.3	293.6	320.4						**2,240.5**
Six years later	453.1	422.0	382.4	362.1	294.1							**1,913.7**
Seven years later	453.2	429.5	385.1	360.5								**1,628.3**
Eight years later	451.8	428.5	383.7									**1,264.0**
Nine years later	453.2	426.8										**880.0**
Ten years later	453.8											**453.8**
Estimate for cumulative claims	453.8	426.8	383.7	360.5	294.1	320.4	456.3	518.1	473.0	346.9	**284.7**	**4,318.3**
Cumulative payments to date	(448.5)	(404.1)	(370.8)	(348.9)	(291.3)	(306.4)	(432.7)	(472.0)	(381.1)	(247.4)	**(129.1)**	**(3,832.3)**
Gross outstanding claims liabilities before discounting	5.3	22.7	12.9	11.6	2.8	14.0	23.6	46.1	91.9	99.5	**155.6**	**486.0**
Provision for prior years before discounting												**57.2**
Discounting												**(1.5)**
Gross outstanding claims liabilities												**541.7**
Gross claims reported												**406.6**
Gross claims incurred but not reported												**135.1**
Gross outstanding claims liabilities												**541.7**

Gross ultimates have increased as the indemnification agreement came into force after the application of CIS Reinsurance contracts. Following the Part VII transfer, CISGIL have now taken on the Gross Liabilities that were previously reinsured under CIS Reinsurance contracts.

All amounts are stated in £m unless otherwise indicated

21. Insurance contract liabilities and reinsurance assets continued

v. Analysis of claims development continued

	Accident year											
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	**2014**	**Total**
Net of reinsurance												
At end of the accident year:	547.2	477.6	416.6	372.6	334.6	313.1	398.4	481.2	489.8	350.9	**275.9**	**4,457.9**
One year later	525.1	465.8	408.9	377.8	305.5	320.7	434.3	514.8	456.3	330.4		**4,139.6**
Two years later	493.3	437.4	400.8	369.8	296.3	325.4	458.6	516.5	458.7			**3,756.8**
Three years later	465.2	411.0	392.5	357.8	291.8	317.6	445.2	509.4				**3,190.5**
Four years later	448.0	420.1	386.0	359.4	289.6	310.0	439.4					**2,652.5**
Five years later	451.5	414.1	385.2	359.2	287.2	307.3						**2,204.5**
Six years later	450.8	414.8	380.2	355.2	287.8							**1,888.8**
Seven years later	451.1	420.6	379.7	353.7								**1,605.1**
Eight years later	449.8	420.6	379.3									**1,249.7**
Nine years later	451.1	419.3										**870.4**
Ten years later	451.7											**451.7**
Estimate for cumulative claims	451.7	419.3	379.3	353.7	287.8	307.3	439.4	509.4	458.7	330.4	**275.9**	**4,212.9**
Cumulative payments to date	(446.5)	(402.9)	(370.4)	(342.1)	(285.0)	(300.9)	(425.3)	(466.5)	(375.8)	(242.0)	**(125.2)**	**(3,782.6)**
Net outstanding claims liabilities before discounting	5.2	16.4	8.9	11.6	2.8	6.4	14.1	42.9	82.9	88.4	**150.7**	**430.3**
Provision for prior years before discounting												**41.3**
Discounting												**(1.5)**
Net outstanding claims liabilities												**470.1**
Net claims reported												**367.4**
Net claims incurred but not reported												**102.7**
Net outstanding claims liabilities												**470.1**

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 2014 result includes movement on prior year reserves of £26.7m (2013: £49.1m).

All amounts are stated in £m unless otherwise indicated

22. Taxation

	2014	2013
Current tax		
Liability at the beginning of the financial year	**(4.9)**	(4.0)
Tax charged to the income statement	**(0.2)**	(6.6)
Tax (charged)/credited directly to other comprehensive income:		
Changes in fair value on available for sale assets recognised through other comprehensive income	**(5.5)**	6.3
Tax received during the financial year	**-**	(0.6)
Liability at the end of the financial year	**(10.6)**	(4.9)

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 20% (2013: 20%).

	2014	2013
Deferred tax liability		
Liability at the beginning of the financial year	**(5.7)**	(6.4)
Tax credited to the income statement	**0.1**	0.7
Liability at the end of the financial year	**(5.6)**	(5.7)
Analysis of deferred tax liability		
Claims equalisation reserve	**(5.9)**	(6.0)
Other timing differences	**0.3**	0.3
Liability at the end of the financial year	**(5.6)**	(5.7)

Transfers to the equalisation reserve totalling £29.6m as at 31 December 2014 have been treated as tax deductible, however for accounts purposes the corresponding value is nil. The difference has been recognised as part of the Deferred Tax liability at 20%.

The Finance Act 2013 reduced the main rate of corporation tax from 23% to 21% from 1 April 2014. This will be further reduced to 20% from 1 April 2015. The rate reductions will reduce the company's future current tax charge and deferred tax liability accordingly.

23. Other reinsurance liabilities

	2014	2013
Arising from reinsurance operations	**0.5**	-
	0.5	-

All amounts are due within one year.

24. Insurance and other payables

	2014	2013
Arising out of direct insurance operations	**1.4**	1.7
Accruals and deferred income	**16.8**	5.7
Insurance premium taxation payable	**6.6**	7.6
Other payables	**5.6**	2.9
	30.4	17.9

All amounts are due within one year.

25. 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 and Customs (HMRC). If the view of HMRC is upheld, CISGIL will be liable for a VAT charge (from 2010) of up to £2.6m (2013: £2.1m). 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.

As a financial services provider, CISGIL is subject to extensive and comprehensive regulation. It must comply with numerous laws and regulations, including the Consumer Credit Act, which significantly affect the way it does business. Whilst CISGIL believes there are no unidentified areas or failures to comply with these laws and regulations which would have a material impact on the financial statements, there can be no guarantee that all issues have been identified. The Financial Conduct Authority (FCA) has recently conducted a thematic review in respect of how insurers sell premium finance alongside insurance products. Once the review findings are published CISGIL will further assess potential implications in light of its consumer credit activity.

26. Commitments

No commitments were in place as at 31 December 2014 (2013: £nil).

27. Parent company

CIS General Insurance Limited, a subsidiary of The Co-operative Banking Group Limited, is incorporated as a Registered society under the Co-operative and Community Benefit Societies Act 2014 and is registered in England and Wales.

The Co-operative Group Limited is the ultimate parent and is incorporated as an Registered society under the Co-operative and Community Benefit Societies Act 2014 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

28. 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 2014	**Balances with other related parties 2014**	Balances with parent undertaking 2013	Balances with other related parties 2013
Balances with related parties				
At the beginning of the financial year	**(85.0)**	**(55.8)**	(85.0)	(55.5)
Movement in capital value	**85.0**	**64.0**	-	(0.3)
At the end of the financial year	**-**	**8.2**	(85.0)	(55.8)

In December 2014 capital quality was improved through the issuance of new equity to its immediate parent, The Co-operative Banking Group Limited. Proceeds of the issuance were used to repay existing subordinated debt to its immediate parent. Interest during the financial period amounted to £3.2m (2013: £3.3m).

CISGIL has bank accounts with The Co-operative Bank plc. At the end of 2014, the aggregate balance stood at £1.2m (2013: £0.9m). During the year project costs of £0.7m (2013: £0.7m), 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 £1.8m (2013: £2.7m) 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 £132.0m (2013: £163.4m) included in operating expenses and claims handling costs incurred were charged to CISGIL from CFSMS. £nil (2013: £0.1m) was charged for capital utilisation.

Key management (as defined by IAS 24) is considered to include the executive committee members of CISGIL. 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

	2014	2013
Salaries and short term benefits	**2.1**	1.1
	2.1	1.1

29. 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

29. 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.

Financial liabilities

	Carrying value 2014	**Fair value 2014**	Carrying value 2013	Fair value 2013
Other borrowed funds	**-**	**-**	85.0	85.1

Financial asset and liability classification

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

2014	**Designated at fair value**	**Loans and receivables**	**Available for sale**	**Other amortised cost**	**Total**
Assets					
Financial assets at fair value through income or expense	**156.3**	**-**	**-**	**-**	**156.3**
Available for sale assets	**-**	**-**	**764.6**	**-**	**764.6**
Other financial assets	**-**	**137.4**	**-**	**-**	**137.4**
Total financial assets	**156.3**	**137.4**	**764.6**	**-**	**1,058.3**
Non-financial assets					**115.7**
Total assets					**1,174.0**
Liabilities					
Overdrafts	**-**	**-**	**-**	**7.9**	**7.9**
Other financial liabilities	**-**	**-**	**-**	**30.4**	**30.4**
Total financial liabilities	**-**	**-**	**-**	**38.3**	**38.3**
Non-financial liabilities					**754.3**
Total liabilities					**792.6**
Capital and reserves					**381.4**
Total liabilities and equity					**1,174.0**

All amounts are stated in £m unless otherwise indicated

29. Fair values of financial assets and liabilities continued

Financial asset and liability classification continued

2013	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total
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

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 IFRS 7 (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). Pricing providers can not guarantee that the prices that they provide are based on actual trades in the market. Therefore all of the corporate bonds are classified as Level 2.

Valuation of financial instruments

	Level 1	Level 2	Level 3	Total
2014 **Assets**				
Financial assets at fair value through income or expense	**-**	**156.3**	**-**	**156.3**
Available for sale assets	**-**	**764.6**	**-**	**764.6**
Total financial assets at fair value	**-**	**920.9**	**-**	**920.9**

All amounts are stated in £m unless otherwise indicated

29. Fair values of financial assets and liabilities continued

Valuation of financial instruments continued

	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

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 2014	**Fair value 2014**	**Amortised cost 2014**
Investments in debt securities as:			
Available for sale financial assets	**764.6**	**764.6**	**747.8**

	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

CIS General Insurance Limited

Registered under the Co-operative and Community Benefit Societies Act 2014

Registered office: Miller Street, Manchester, M60 0AL

Registered number: 29999R

www.co-operativeinsurance.co.uk