CIS General Insurance Limited

Annual report and accounts 2016

Part of The Co-operative Group Limited

Contents

Principal Activities

CIS General Insurance Limited is a UK-based General Insurer that operates predominantly within the personal lines segment of the Motor and Home insurance markets under the Co-op Insurance brand.

Co-op Insurance underwrites the majority of business written, supplemented with business where Co-op Insurance acts as a distributor or has a 100% reinsurance arrangement in place.

Financial Performance

Results summary	2016 £m	2015 £m	Change £m
Net earned premiums	**439.0**	345.2	93.8
Net policyholder claims and benefits incurred	**(293.9)**	(244.1)	(49.8)
Investment return	**14.4**	18.2	(3.8)
Commission and expenses	**(161.3)**	(143.6)	(17.7)
Other income	**13.0**	11.2	1.8
Finance costs	**(8.6)**	(5.6)	(3.0)
Profit/(loss) before transformation costs and taxation	**2.6**	(18.7)	21.3
Costs in respect of Transformation Programme	**(28.8)**	(47.4)	18.6
Loss before taxation	**(26.2)**	(66.1)	39.9
Gross written premiums	**480.9**	424.3	56.6
Claims ratio (1)	**66.9%**	70.7%	
Commission and expense ratio (2)	**33.5%**	38.0%	
Combined operating ratio (3)	**100.4%**	108.7%	

(1) Net claims divided by net earned premiums

(2) Operating expenses (excluding Transformation Programme costs and investment management fees of £1.1m) and net commission expense divided by net earned premium

(3) Combination of the claims ratio and the commission and expense ratio

Co-op Insurance's financial performance for 2016 was a loss before taxation of £26.2m (2015: £66.1m) which includes the cost of the Transformation Programme (£28.8m). Following the Lord Chancellors announcement on changes to the discount rate applied to long term claims in February 2017, an increase in reserves of £15.1m has been treated as an adjusting post balance sheet event for accounting purposes.

Profit before transformation costs and taxation for 2016 was £2.6m, compared to a loss of £18.7m in the prior year. This includes a reduction of the best estimate net reserves held against claims for prior years of £25.1m, of which £17.4m in Motor is primarily due to favourable development on large bodily injury claims, with legacy employers' liability reserve releases accounting for the majority of the remaining movement. In addition, current year claims performance has benefitted from more benign weather, following a number of significant weather events that impacted the result in 2015.

Gross written premium increased in 2016 by £56.6m (13%) to £480.9m. Market hardening and an increase in new business volumes in Motor has driven a £70.9m improvement in premiums. In contrast, the increasingly competitive landscape of Home is characterised by a relatively soft premium environment with a £12.1m reduction in premium. Legacy employers' liability premiums have fallen by £2.2m in the year.

Co-op Insurance sells insurance direct to customers via phone and web channels and also through third party brokers and aggregator sites. Retention in the Direct book remains strong, reflecting the loyalty of our customers, the strength of the Group brand and Co-op Insurance's service. In Motor, retention is strongest in the Phone channel, with Web and Aggregator delivering very similar retention rates. The Aggregator book is approximately half the size of the combined Direct and Broker books and hence the overall retention rates are heavily influenced by performance in that channel. Home retention rates are also strongest through the Phone channel. The Aggregator channel accounts for a much lower share of the overall Book in Home and so the overall retention rate is much less influenced by the lower retention rates achieved in this channel.

Net earned premiums increased by 27%, reflecting the growth of the Motor business. The overall claims ratio improved to 66.9% including prior year reserve releases on Motor and Liability Reserves.

Investment income remained low during 2016, reflecting the yields available in the market, particularly post-Brexit. In the context of increased execution risk as a result of the Transformation Programme, the Board investment risk appetite was amended in 2015 with lower rated corporate bonds being sold and the proceeds reinvested in gilts and cash which generate lower returns. The sale of investment assets during the year realised gains of £1.4m (2015: £2.9m).

Cost management remained a key focus during 2016, with the commission and expense ratio (excluding transformation costs) improving to 33.5% (2015: 38.0%). The costs associated with the implementation of the Transformation Programme are charged to the income statement as incurred, except where licenses or hardware have been acquired directly by Co-op Insurance. The combined operating ratio including the cost of the Transformation Programme was 100.4% (2015:108.7%).

Strategy

The Co-operative Group Rebuild Programme continued through 2016, with Co-op Insurance remaining a key element of the strategy. Co-op Insurance has the Group purpose at its heart with an offer focused on Co-op members, to deliver a customer proposition which will be distinctive, built on fairness, transparency and simplicity. Through the use of privileged data from Co-operative Group companies, Co-op members will be attracted by the proposition, personalised communication and the benefit of more competitively priced insurance products.

Members and customers will be able to get what they need and will find it easy to do business with Co-op Insurance. The business' competitive position will improve through fair pricing, passing cost savings on to members and by building strong partnerships. In the wider insurance environment, Co-op Insurance aims to champion changes to market practices that penalise consumers and continues to support initiatives to help to make communities safer.

Members will be attracted by the unique Co-op brand and the proactive use of new member data to deliver better priced insurance products. Target customers who are not members will mainly be attracted through Aggregator websites with a competitive offer and then engaged with the new Co-op membership offering over time. Commercial success will be secured by investing in core capabilities, a continued focus on costs and effectively communicating the Co-op difference.

General Insurance Transformation

Co-op Insurance recognised in 2014 a need to overhaul its core systems as part of a broader transformation to deliver a step change in the way it engages with members and customers. This includes improving the ways in which products are distributed and serviced, as well as broadening the insurance offering.

There was also recognition of the need to improve efficiency to create more value for members and to have systems that could accommodate the evolving and fast changing regulatory and competitive environment. Lastly, there was a need to separate the systems of Co-op Insurance and Co-operative Bank to sustain a long term operating model and reduce costs.

At the outset, it was expected that the Programme to replace and upgrade the core systems would have delivered major components of the new systems by the end of 2016, but to date those expectations have not been met and there is ongoing substantial delay.

Co-op Insurance is in discussion with the primary programme supplier about the future direction of the Programme, including timescale and content. In the meantime, Co-op Insurance is taking active steps to address this delay, and is investigating actions to sustain momentum of the core system renewal and up-grade.

The company has and continues to successfully transform those elements of the business not dependent on new IT systems. In 2016 there was significant progress in pricing capability and the use of member data to enhance products and services. In addition, a new telephony system was implemented to improve customer services.

To ensure the development and implementation of the Co-op Insurance strategy remains a key focus of the business, a specific governance structure is in place to support the Transformation Programme. The Co-op Insurance Board has the overall responsibility for delivering the Programme with the support of the Board Transformation Committee who report directly to them. Reporting to the Board Transformation Committee are the Transformation Executive Steering Committee, the Commercial Management Group and the Programme 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. In addition, there are a number of further sub-committees with reporting lines to the Transformation Executive Steering Committee and the Programme 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.

Group Restructuring

Co-op Insurance is a wholly owned subsidiary of the Co-operative Group Limited, following the transfer of ownership from the Co-operative Banking Group Limited in 2015. A programme of activity to separate the Co-operative Bank from the Group was initiated, with formal service management agreements in place with the Co-operative Group suppliers and oversight provided by a joint governance framework. A programme of activity to separate the infrastructure and systems that Co-op Insurance and the Co-operative Bank share is substantially complete although residual elements remain to be addressed.

Co-op Insurance notes the announcement made by the Co-operative Bank of their intention to seek a sale of the business or alternatively find additional funding and is taking appropriate steps to safeguard both the interests of customers and the continuance of shared systems support.

Operational Developments

The Transformation Programme aims to deliver the planned customer proposition through a step-change in customer experience, the potential for a broader product set and a more competitive price position ensuring the ability to meet more members' insurance needs.

Alongside the execution of the Transformation Programme, Co-op Insurance has delivered a series of improvements to both the customer experience and to short-term profitability, including improvements in data analytics which have enabled segmental action to be taken on premium rates throughout 2016.

Operational Developments (continued)

Investment in pricing capability continued in 2016. The introduction of new technical pricing models in the Motor Aggregator channel improved the profitability of business written, whilst improvements to the pricing sophistication of the Young Driver product have changed the mix of the portfolio towards safer drivers.

The Motor proposition was enhanced in the Aggregator channel through the introduction of self-serve capability. The customer experience was improved in the Young Driver product, including offering customers the opportunity to upload documentation electronically and to engage with the business through Live Chat. A "Try Before You Buy" mobile application has also been successfully launched and distribution reach expanded in the Aggregator channel.

Co-op Insurance continued to champion transparency with the launch of "Transparent Pricing" videos, which explains to customers how insurance pricing works. The strategic intent to champion safer communities was delivered through partnerships with Neighbourhood Watch which aims to support the establishment of 30,000 new schemes, and Brake, the road safety charity, which aims to encourage safer driving. Co-op Insurance campaigned for changes to the driving test to better equip young people for life on the road and launched the Co-op Safe Used Car of the Year award which encouraged customers to consider safety features when buying used cars. Both partnerships helped generate wide-spread media coverage for Co-op Insurance.

Market Background

The UK general insurance market is highly competitive, with multiple insurance providers and a highly price driven environment. There was significant upwards pressure on premium rates in Motor throughout the year, which is evidenced by several market indices, including the AA British Insurance Price Index which reported a 16% increase in price in the year to 30 September 2016. In contrast, the AA index reported a 6% price increase on combined Home policies over the same time period.

Investment yields remain low and continue to reinforce the importance of maintaining underwriting discipline and investment in pricing and data capabilities. Technology change continues to be rapid and is being leveraged to deliver new and innovative customer propositions.

The Flood Re scheme was launched in April 2016 to ensure domestic properties in the UK at the highest risk of flooding can receive affordable cover for their household property insurance. The scheme is flexible in terms of individual insurers' risk appetite, which means insurers retain control of the risks selected for ceding to the scheme and is funded by the flood element of the customers' premium and the creation of an additional industry-wide levy of £180m. Co-op Insurance is fully supportive of Flood Re's aims to return to risk based pricing by 2040, and to meet future customer needs, which will support members and their communities. Co-op Insurance plans to join the scheme as part of its Transformation Programme and in the meantime continues to provide cover to those customers already holding Co-op Insurance policies.

Regulatory Change

Regulatory scrutiny remains high across the industry, with continuing focus from the Financial Conduct Authority (FCA) on increasing transparency and improving customer outcomes and the Prudential Regulation Authority (PRA) on firms' financial strength and resilience to adverse conditions and events.

The Solvency II Directive, which introduced new requirements on solvency for insurers within the European Union (EU), was transposed into UK law with an effective date of 1 January 2016. Co-op Insurance is now operating under the new regulatory framework. Throughout 2016, the PRA issued publications clarifying its expectations and providing guidance on the requirements and in September 2016, the Treasury Select Committee launched an enquiry to explore the impact of the Directive and evaluate the options available to the UK, following the decision to leave the EU.

The Senior Insurance Managers' Regime (SIMR), which aims to strengthen individual accountability within insurance firms, became effective from March 2016 with a phased delivery of requirements until 2018. Co-op Insurance has a full implementation plan to deliver the requirements.

New FCA rules governing the sale of general insurance add-on products and enhanced complaint handling requirements were introduced during 2016. In addition, Co-op Insurance worked to implement the requirements of the Competition & Markets Authority Private Motor Insurance Order, with new rules relating to Protected No Claims Discount effective from August 2016, with expected full compliance in 2017.

The FCA's final rules on transparency and engagement for general insurance renewals were confirmed in August 2016. The new requirements improve the information that is provided to consumers at renewal with compliance required by 1 April 2017. Consumer vulnerability remained high on the regulatory agenda throughout 2016, with the FCA issuing publications on Access to Financial Services in the UK and the Ageing Population. Co-op Insurance is supportive of the FCA's objectives and continues to consider the whole community of customers, including those who may be vulnerable.

Regulatory Change (continued)

The FCA published its findings on insurers' use of 'Big Data' in September 2016 and announced plans to carry out a piece of discovery work. This work will focus on pricing practices in a small number of retail general insurance firms and will explore the impact of risk segmentation and price optimisation. The details of the findings from this work are expected to emerge in 2017.

In October 2016, the FCA published an update on its Smarter Consumer Communications initiative and announced further focus areas including terms and conditions, terminology in the general insurance sector and social media and digital communications. Co-op Insurance is committed to engaging with this initiative.

In late 2016, the FCA provided an update on its Regulatory Sandbox initiative. The goal of the Sandbox is to encourage firms to experiment with new, innovative financial products, services or business models without incurring all the normal regulatory consequences of engaging in those activities. Co-op Insurance may access this opportunity in the future for the development of new products.

Regulatory Outlook

The level of regulatory change seen in 2016 looks likely to continue throughout 2017. In late 2016, the FCA published its draft Mission which set out its ongoing focus on consumer protection and competition issues. This will be a key driver for a number of initiatives.

The output of the FCA's work on insurer pricing practices, continuation of the vulnerable consumer's agenda and the Smarter Consumer Communications initiative are expected to be key regulatory issues in 2017. The FCA is also reviewing the funding model for the Financial Services Compensation Scheme, which will impact the levies paid by financial services firms. Feedback on the review, following consultation with the industry, is anticipated in summer 2017.

Under SIMR, in 2017 Co-op Insurance will implement new rules on regulatory references. In addition, HM Treasury has announced that the Senior Managers and Certification Regime (SM&CR), which has increased individual accountability in the banking sector, will be applied to all financial services firms from 2018. The extended SM&CR will build on the requirements of SIMR and create a more consistent and rigorous regime for all in-scope firms. The Regulators will consult on the extended requirements during 2017.

European regulatory changes which are already in train are expected to progress, despite the UK's decision to leave the EU. The Insurance Distribution Directive came into effect in February 2016 and HM Treasury and the FCA have until February 2018 to incorporate the new regime into domestic legislation and ensure implementation by firms. The Directive aims to create a level playing field for all distributors of insurance products and introduces enhanced point of sale and professional development requirements.

The General Data Protection Regulation, which will strengthen and unify data protection for individuals within the EU, will come into force from May 2018.

Capital

Co-op Insurance's profitability and capital base are significantly impacted by the implementation costs of the Transformation Programme, with both external spend and the internal requirement to dual run the existing and new operating models. To offset some of this impact on regulatory solvency coverage, a two year quota share reinsurance programme commenced in January 2017.

Co-op Insurance has monitored available capital on a Solvency II basis throughout 2016 with a Standard Formula Solvency Capital Requirement (SCR) coverage at 31 December 2016 was 148%, excluding the impact of the Ogden rate change the SCR was 155% (2015: 155%). Based on current projections Co-op Insurance expects to continue to meet its capital requirements through the strategic planning horizon.

Principal Risks and Uncertainties

The following are considered to be the principal risks facing Co-operative Insurance:

Risk Type	Definition*
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
Transformation risk	The risk that failure of the Transformation Programme leads to the business failing to re-platform, leading to the need for an alternative strategy to be deployed with cost, time and business sustainability impacts
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
Conduct risk	The risk that Co-op Insurance's behaviours, offerings or interactions will result in unfair outcomes for customers
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
Insurance risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities
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 for example interest rates, market prices of assets and liabilities
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events
People risk	The risk associated with the recruitment, employment and management of individuals within Co-op Insurance
Liquidity risk	The current and prospective risk to earnings or capital arising from Co-op Insurance's inability to meet its obligations when they come due without incurring unacceptable losses
Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations
Pension risk	The risk to capital and 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
Group risk	The risks that arise through being part of The Co-operative Group

*A detailed description of each risk type can be found on pages 35 to 42.

For each of the principal risks, Co-op Insurance Board has approved risk appetite statements, risk policies and control standards 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.

Co-op Insurance'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.

Key Performance Indicators

The business strategy for Co-op Insurance 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 the Co-op difference and helps ensure focus on the implications to areas identified as key in progression towards the strategic vision.

Indicator	2016	2015
Financial and trading *Financial and trading measures focus on profitability, volumes and efficiency*		
Gross written premium This shows the level of premium income that combined business classes bring to Co-op Insurance	**£480.9m**	£424.3m
Combined operating ratio This compares the levels of claims, costs and commissions being paid out against the level of earned premium	**100.4%**	108.7%
Profit/(loss) before transformation costs and taxation This shows the level of profit/(loss) before tax (excluding Transformation costs)	**£2.6m**	(£18.7m)
In force policy count Policies in force is the number of policies Co-op Insurance hold at the statement of financial position date	**1,415,776**	1,426,047
Customer *Customer measures report on customer contacts throughout the customer journey*		
Net Promoter Score (NPS) A cross industry standard metric to track promoters and detractors, producing a clear measure of an organisation's performance through its customers' eyes (An NPS above zero is regarded as good, above 50 is excellent)	**31.8**	New KPI for 2016
Colleague *Colleague measures focus on employee engagement and satisfaction*		
Colleague engagement Our colleague engagement assessment is derived from our annual internal colleague survey and is a combined score for all functions within the business	**76%**	63%
Capital adequacy & risk *Risk measures focus on capital adequacy and risk appetite*		
Risk appetite For each of the principal risks, Co-op Insurance Board has approved risk appetite statements with underpinning metrics	Risk appetite metrics have approved limits within which business operations are to be conducted, along with thresholds to give early warning of emerging issues	
Capital buffer There are a number of different methodologies for calculating the minimum level of capital that Co-op Insurance must maintain. At any one time Co-op Insurance must ensure it has sufficient capital to meet the most onerous of these requirements	All externally imposed capital requirements have been met	
Brand Strength *Brand strength metrics focus on key external relationships through which we sustain and grow our business*		
Awareness A measure of how likely a potential customer is to recognise a brand. This is an independent measure of awareness of Co-op Insurance within the wider market	**4.8%**	5.5%
Social listening A measure of unprompted perceptions of Co-op Insurance through social media networks. As the score monitors the number of negative posts, as a percentage of total posts, the year on year decrease represents an improved position	**4.0%**	17.9%

Colleague

Launched in 2015, the Co-op Insurance colleague Annual Incentive Plan is based on a balanced scorecard of measures which align to the Board's Key Performance Requirements. The full year 2016 outcome for these measures is as follows:

Performance Measure	Weighting	Threshold	Target	Stretch	FY Actual 2016	Against Target 2016
Customer Satisfaction (net promoter score)	20.00%	27	31	35	31.80	Above Target
Gross Written Premium (£m)	12.50%	Less than 434.4	457.3	Greater than 480.2	480.9	Above Stretch
Motor Loss Ratio*	6.25%	Higher than 81.9%	78.0%	Lower than 74.1%	84.8%	Below Threshold
Home Loss Ratio*	6.25%	Higher than 47.4%	45.1%	Lower than or equal to 42.9%	42.0%	Above Stretch
Expenses (£m) (Excluding transformation costs)	12.50%	Higher than 140.4	137	Lower than 130.2	129.1	Above Stretch
People Engagement Score (Management only)	12.50%	62	65	70	76.00	Above Stretch
Transformation	30.00%	Threshold	Target	Stretch	Colleague -Target Management - Threshold	Colleague -Target Management - Threshold
Total	**100%**					

*Excluding prior year adjustments, weather events, management margin and other technical provisions

By order of the Board
Katy Arnold, Secretary
5 April 2017

The Board

The Co-op Insurance Board has eight Non-Executive Directors, including a Senior Independent Director. Board members have significant financial services and transformation experience, directly relevant to Co-op Insurance's transformation journey.

Non-Executive Directors

Robert (Bob) Newton (Chairman)

Appointed to the Board as a Non-Executive Director in August 2007 and became Chairman in July 2012.

BSc, FIA, CDir. Over 40 years' experience in the Financial Services industry. Chair of Silentair Group Limited and Non-Executive Director of Reclaim Fund Ltd.

Committees: Chair of Nomination Committee.

Neil McKenzie (Senior Independent Director)

Appointed to the Board as a Non-Executive Director in November 2013 and was appointed Senior Independent Director in November 2015.

FCII. 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.

Committees: Chair of Risk Committee and Member of the Audit and Nomination Committees.

David Lister (Independent Non-Executive Director)

Appointed to the Board as a Non-Executive Director in December 2014.

Over 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 HSBC Bank plc, Nuffield Health, Department of Work and Pensions, The Tech Partnership, FDM Group (Holdings) Plc and Weatherbys Ltd.

Committees: Chair of Transformation Committee and Member of Remuneration and Risk Committees.

Caroline Fawcett (Independent Non-Executive Director)

Appointed to the Board as a Non-Executive Director in December 2014.

BSc (Hons) DipM MCIM. Over 20 years in senior marketing and customer experience roles in the financial services industry and the public sector, most recently as Founder and Lead Consultant for Customer Experience First Ltd. Non-Executive Director of The Money Advice Service.

Committees: Chair of Remuneration Committee and Member of Risk and Transformation Committees.

Graham Singleton (Independent Non-Executive Director)

Appointed to the Board as a Non-Executive Director in December 2014.

BSc, ARCS, FIA. Over 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. Currently insurance advisor to Apollo Investment Consulting Europe Limited and Amissima Insurance Group, Italy. Executive Director of Tayam Consulting Limited.

Committees: Chair of Audit Committee and Member of Risk and Transformation Committees.

Julie Hopes (Independent Non-Executive Director)

Appointed to the Board as a Non-Executive Director in July 2015.

Over 20 years' experience in insurance, specialising in General Insurance predominantly in personal lines. Previous roles include Managing Director - General Insurance, Tesco Bank, International Operations and IT Director, Royal and Sun Alliance Insurance and Managing Director Royal and Sun Alliance Affinity. Non-Executive Director of Police Mutual Assurance Society, West Bromwich Building Society and Orbit Living Housing Association.

Committees: Member of the Audit, Transformation and Remuneration Committees.

Diane Buckley (Independent Non-Executive Director)

Appointed to the Board as a Non-Executive Director in July 2015.

Longstanding experience in the insurance industry. Previously worked for Legal & General for 27 years where roles included Managing Director of General Insurance and Group Protection divisions.

Committees: Member of the Audit, Risk and Nomination Committees.

Non-Executive Directors (continued)

Alistair Asher
(Non-Executive Director)

Appointed to the Board as a Non-Executive Director in December 2014.

LLB. General Counsel of Co-operative Group Limited. Solicitor with over 30 years' experience of a wide range of commercial and corporate finance transactions. Previous Global Head of Financial Institutions Group, Allen & Overy LLP. Chair of Co-operative Legal Services Limited. Director of NOMA (GP) Limited, Co-operative Trust Corporation Limited, Federal Retail and Trading Services Limited and The Co-operative Bank plc.

Committees: Member of the Transformation Committee.

Director

Mark Summerfield
(Chief Executive Officer)

Appointed to the Board as an Executive Director in April 2013.

BA (Hons) (Econ), ACII. Over 30 years' Financial Services experience. Joined Co-operative Group Limited in April 2004 having previously worked for Fleming & Co, Prudential plc, MISYS plc and Phoenix Assurance plc, in a variety of general management roles. Member of the Co-operative Group Executive. Non-Executive Director of Reclaim Fund Ltd.

Report of the Board of Directors

General Information
Co-op Insurance is a Registered Society under the Co-operative & Community Benefit Societies Act 2014 (Registered number 29999R), authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (FRN 435022). Co-op Insurance is a wholly owned subsidiary of Co-operative Group Limited (Group).

Rule Book
As a Registered Society, Co-op Insurance holds a Rule Book, which sets out the constitutional governance for the business.

Directors' Details
The Directors biographies are provided on pages 9 and 10.

Details of appointments and resignations during the financial year, and changes since the end of the financial year are provided on page 13.

Employees
Co-op Insurance has no employees. All colleagues are employed through the Group or CFS Management Services Limited, a subsidiary of the Group which provides administrative and other services. A management charge is payable to cover the costs of these services.

Corporate Responsibility and the Environment
The Group 2016 Annual Report contains details of how the Group, including Co-op Insurance, manages its social, ethical and environmental impacts.

All Co-op Insurance proposed investments are screened against the Ethical Policy, and existing investments are reviewed periodically to ensure ongoing compliance in four identified areas; Human Rights, Ecological Impact, International Development and Animal Welfare.

Annual Report and Accounts
So far as the Directors are aware, there is no relevant audit information of which Co-op Insurance'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 Co-op Insurance's auditors have been made aware of that information.

Viability Statement
The business activities of Co-op Insurance, together with its financial position and the factors likely to affect its future development and performance are set out in the Strategic Report on pages 2 to 8.

The principal risks facing Co-op Insurance, and the processes that have been adopted to manage them, are set out on pages 34 to 42. These include insurance, market and operational risk, as well as an assessment of how the Transformation Programme could develop.

The viability assessment uses a three year time horizon, from 2017 to 2019, and is based upon the strategic planning cycle. The assessment is made with a risk focus and uses stress simulation to model a range of scenarios and outcomes. These simulations are used to produce profitability, liquidity and capital projections to drive an overall view on viability over the chosen time horizon.

As well as the 2017 strategic plan, the assessment process has also considered a number of emerging risks, including the announcement by the Co-operative Bank of their intention to seek a sale of the business, and the implications for Co-op Insurance of the delays to the Transformation Programme (see Risks on pages 34 and 42). The assessment also considers a range of specific management actions which could be taken, if required, to mitigate potential adverse outcomes to the base plan of the business, focussing on the maintenance of capital requirements over the review horizon.

The Directors have reviewed and challenged this assessment, paying particular attention to the risks currently facing Co-op Insurance and the ability of the business to implement actions to mitigate these risks. Following this review, and after making relevant enquiries of the Group, the Directors believe that Co-op Insurance will be able to continue in operation and has the resources to continue to meet its liabilities as they fall due over the three-year period of their review.

Going Concern
In considering the appropriateness of the going concern basis, the Directors have reviewed Co-op Insurance's ongoing commitments for the next 12 months and beyond within the detailed assessment noted within the Viability Statement above. As the Directors have a reasonable expectation that business is viable over the longer three year horizon, it is therefore deemed appropriate that the going concern basis is appropriate for the preparation of the 2016 Annual Report and Accounts.

Corporate Governance Report

Compliance with the UK Corporate Governance Code
It is not mandatory for Co-op Insurance to comply or report on its compliance with all the provisions of the UK Corporate Governance Code, published by the Financial Reporting Council (the 'Code'). However, where possible and appropriate, Co-op Insurance aims to conform to the key principles of the Code to ensure alignment with good practice, transparency and openness.

Independent Access of the Head of Internal Audit and Chief Risk Officer
Both the Chief Risk Officer and the Head of Internal Audit have the right of access to Board and/or Non-Executive Directors if required.

Report of the Board of Directors

Leadership

The Board is responsible for leading and providing direction by determining the strategy for Co-op Insurance, consistent with its purpose and Co-operative Values and Principles, in order to meet the needs of its members. The strategy is set in the context of the wider Group strategy.

The Board oversees the business of Co-op Insurance in accordance with the strategy and holds the Executive to account in the performance of its duties. The Board is also responsible for overseeing a risk and internal audit framework designed to provide adequate assurance as to the protection of the business's assets; the health, safety and welfare of customers and staff; compliance with all relevant laws and regulations and the maintenance of the reputation of Co-op Insurance.

Specific key decisions and matters have been reserved for approval by the Board and are detailed in a formal Schedule of Matters reserved for the Board. Responsibilities of the Board include:

- Setting the long-term objectives and commercial and operating strategies;
- Approval of Co-op Insurance's half yearly report, interim management statements, and annual report and accounts;
- Approval of Co-op Insurance's risk management framework, risk appetite, any associated policies;
- Approving the design and implementation of risk management approaches, including the Risk Management Framework (RMF) Policy and the Risk Appetite Statements and metrics that underpin them;
- Appointments to the Board, including Senior Independent Director; and
- Approval of any dividend policy and declaration of any interim dividend and recommendation of any final dividend.

Board Composition

Co-op Insurance currently has 9 Directors, 8 of whom (including the Chairman) are Non-Executive. The Board will continue to review the balance of Executive and Non-Executive Directors on a regular basis to ensure the Board remains appropriately constituted.

There is a clear division of responsibilities between the Chair and the Chief Executive Officer set out in writing to ensure no individual has unfettered powers of decision.

The Directors of Co-op Insurance during the financial year are listed below. Their appointments were for the full period unless otherwise stated. Each Director's length of service is detailed in their biography on pages 9 and 10.

Non-Executive Directors:
Bob Newton (Chairman)
Neil McKenzie (Senior Independent Director)
David Lister
Caroline Fawcett
Graham Singleton
Julie Hopes
Diane Buckley
Alistair Asher

Executive Directors:

Mark Summerfield (Chief Executive Officer)
Kieran O`Keeffe (Chief Finance Officer) (Resigned 13 September 2016)

Secretary:
Katy Arnold

Key Roles and Responsibilities

Chairman

- Chairs the Board, the Nomination Committee and the Annual General Meeting (AGM)
- Sets the Board meeting agendas with the Chief Executive
- Facilitates and encourages active engagement and appropriate challenge by the Directors
- Leads the development of culture by the Board as a whole
- Commissions Board and Committee Evaluations
- Leads the development for the induction, training and professional development of all Board Members
- Builds an effective Board and develops succession plans
- Ensures the Board receives timely and relevant information and is kept advised of key developments

Senior Independent Director (SID)

- Provides a sounding board for the Chair and serves as an intermediary for other Directors where necessary
- Leads the annual evaluation of the performance of the Chair and ensures that this is effectively conducted
- Chairs the Nomination Committee when it is considering succession to the role of Chair of the Board
- Is available to the members if they have concerns which contact through the normal channels of the Chair, Chief Executive Officer or Chief Financial Officer has failed to resolve or for which such contact is inappropriate

Chief Executive Officer

- Responsible for the day-to-day management and leadership of Co-op Insurance within the authorities delegated by the Board
- Responsible for the sponsorship and implementation of the Board approved Strategy
- Makes decisions affecting the operation, performance and strategy of Co-op Insurance, with the exception of those matters that are reserved for the Board

Report of the Board of Directors

Role of a Non-Executive Director
- Provides independent and constructive challenge and an external focus to Board discussions
- Ensures that there is an effective Executive team in place to exercise appropriate oversight over the execution of the agreed strategy
- Scrutinises the performance of Executive Management against targets and monitors the reporting of performance
- Ensures that Board discussions and decision-taking on risk matters is based on accurate and appropriately comprehensive information and, where appropriate, draws on external analysis and input
- Ensures robust systems of risk management and financial controls are in place

Role of an Executive Director
- Manages the day-to-day business of Co-op Insurance
- Proposes a purpose and strategy to the Board, in line with the Values and Principles of Co-op Insurance
- Proposes an annual operating plan to the Board in line with the strategy and delivery against this
- Implements the decisions of the Board

Role of the Secretary
- Responsible to the Board
- Provides comprehensive practical support and guidance to the Directors on all governance matters and ensures adherence to all governance processes in line with best practice
- Supports the Directors in maintaining the highest standards of probity and corporate governance
- Assists with the production of Board and Committee agendas, circulation of papers to the Board and the production of minutes
- Acts as Secretary to the Board Committees

Appointment and Re-appointment of Directors
In accordance with the Rule Book, appointments to the Board are made by the Board of Directors with the exception of one position - the Group is entitled to appoint one of its Executive members onto the Board. This position is currently held by Alistair Asher, Group Legal Counsel.

The Co-operative Group is also responsible for selecting one of the Independent Non-Executive Directors to act as Chairman of the Board and may also select a Deputy Chairman. No Director currently occupies the position of Deputy Chairman.

In accordance with the Rule Book, all Independent Non-Executive Directors (including the Chairman) are appointed for a three year term and are required to submit themselves for re-appointment at the AGM following their appointment and at the AGM every three years thereafter.

The 2017 AGM will be held on 15 June 2017. No Directors are due for re-appointment. In July 2017 Bob Newton will step down as the Chairman of the Co-op Insurance Board, with an appointment process already in train.

Board Committees
To assist the Board in carrying out its functions and to ensure that there is independent oversight of internal controls and risk management, the Board has delegated certain responsibilities to five principal Board Committees; the Audit Committee, the Risk Committee, the Remuneration Committee, the Transformation Committee and the Nomination Committee. Membership of these Committees consist entirely of Non-Executive Directors. The role of each Committee can be found on pages 15 to 17.

All Board Committees have Terms of Reference describing the authority delegated to them by the Board, and the Board ensures that each Committee is provided with sufficient resources to enable it to undertake its duties. The Board receives the minutes of all Committee meetings and a report from the relevant Committee Chair at Board meetings, as appropriate.

Operation of the Board
The Board continues to meet on a monthly basis and there were 12 principal Board meetings held during the financial year. The table below sets out attendance at the principal Board and Committee meetings.

In the case of a Director being unable to attend a meeting, the relevant Chair received a satisfactory reason for their absence. All Directors receive papers for Board and Committee meetings via a digital Board Portal. Those unable to attend are invited to submit their views to the Chair in advance of the meeting. Private sessions of the Board and Committees are scheduled as required. All Directors have open access to the Chair and Senior Independent Director and may request a private meeting.

Report of the Board of Directors

Operation of the Board (continued)

	Board	Audit Committee	Risk Committee	Transformation Committee	Remuneration Committee	Nomination Committee
TOTAL MEETINGS 2016	**12**	**7**	**5**	**12**	**6**	**2**
Bob Newton (Chairman)	12(12)	-	-	-	-	2(2)
Neil McKenzie	11(12)	7(7)	5(5)	-	-	2(2)
David Lister	11(12)	-	5(5)	12(12)	6(6)	-
Caroline Fawcett	10(12)	-	4(5)	10(12)	6(6)	-
Graham Singleton	11(12)	7(7)	5(5)	12(12)	-	-
Julie Hopes	12(12)	7(7)	-	11(12)	6(6)	-
Diane Buckley	11(12)	6(7)	4(5)	-	-	2(2)
Alistair Asher	10(12)	-	-	9(12)	-	-
Mark Summerfield	12(12)	-	-	-	-	-
Kieran O'Keeffe	9(9)	-	-	-	-	-

The table is based on membership of the Board/Committee, rather than attendance as an invitee. The number in brackets indicates the number of meetings the Director was required to attend in their capacity as a Director/Committee member.

Board Effectiveness

Board Induction, Development and Training

On appointment, each Director undertakes a comprehensive and structured induction programme which is designed to provide them with key business information about Co-op Insurance, and includes briefing sessions with members of the Executive team.

An individual training and development programme is designed and maintained for each Director which is reviewed periodically. The Chairman meets each Director annually to discuss individual training and development needs and each Director's programme was updated accordingly during 2016 with the outputs from these sessions.

Throughout 2016 the Board continued to hold collective training sessions which were scheduled to take place the evening prior to Board meetings. An electronic 'Resources Centre' is available to enable Directors to access, revisit and review copies of presentations and materials from these sessions.

Board & Committee Evaluations

The Board, in accordance with best practice, ensures an evaluation of the Board is conducted annually.

In 2016 the Board conducted an internal evaluation. The process, led by the Chairman, involved Directors being asked to rate their satisfaction with key areas such as the timeliness and usefulness of information provided to Directors, the culture and communication within the Boardroom and with the Board and key Committees, together with any training and development needs. The evaluation was facilitated through a tailored questionnaire with the results presented to the Board alongside an action plan.

During the year the Chairman met with each Director to obtain their individual views on the composition and membership of the Board, the skill set of the Board, the way the Board works, the role of Committees, and learning and development opportunities. In addition the Board Skills Matrix was updated. This set out the required skills of the Board and the extent to which the Directors demonstrate these capabilities. This information has helped identify enhancements to be made to increase the effectiveness of the Board and its operation.

In 2016, the Directors, led by the Senior Independent Director, met to assess the performance of the Chairman with a further evaluation in January 2017.

Board Code of Conduct

In accordance with the Rule Book, the Board has adopted a Code of Conduct which sets out the standards of behaviour and conduct to which all Directors must adhere.

Independence of Non-Executive Directors

With the exception of the Non-Executive Director appointed by the Group, in accordance with the Co-op Insurance Rule Book (Rule 6.1.3), on appointment Non-Executive Directors are independent in character and judgement and free from any business or other relationship which could materially interfere with the exercise of that judgement.

Of the 8 current Non-Executive Directors, the Board considers 6 to be independent within the criteria set out in the UK Corporate Governance Code. These 6 are Neil McKenzie, David Lister, Caroline Fawcett, Graham Singleton, Julie Hopes and Diane Buckley. The assessment of independence is based on the fact that each of these Directors has served less than nine years in their current role, receives no additional benefits from Co-op Insurance or the Group, and has not previously held an executive role within Co-op Insurance or the Group. The Board believes that there are no current or past matters which are likely to affect their independent judgement.

Alistair Asher does not meet the test of independence during the financial year given his role as a Group Executive.

In accordance with best practice, the test of independence is not appropriate in relation to Bob Newton as Chairman.

Report of the Board of Directors

Conflicts of Interest
The Rule Book requires the Board to consider any potential conflicts of interest.

The Board has adopted a Conflicts of Interests Policy, contained within the Board Code of Conduct, which aims to ensure that conflicts of interest are appropriately managed through effective organisational and administrative arrangements with a view to taking all reasonable steps to prevent actions that are either contrary to the interests of Co-op Insurance, or could cause reputational damage or the appearance of impropriety. Conflicts are actively managed at and in advance of Board meetings.

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

Insurance and Indemnities
Co-op Insurance maintains appropriate Directors' and Officers' liability insurance cover through the Group in respect of legal action against its Directors and Officers. The insurance cover was renewed in June 2016.

Directors Remuneration
The table below sets out the fees paid to the Non-Executive Directors of Co-op Insurance for the year ended 31 December 2016.

In accordance with the Rule Book (Rule 7.12), Alistair Asher is not entitled to receive any fees in respect of his appointment. The remuneration for Alistair Asher as a Group Executive is appropriately disclosed in the 2016 Group Report & Accounts.

In accordance with the Rule Book (Rule 7.11), Mark Summerfield is not entitled to any fees in respect of his Board appointment. Mark Summerfield is employed and remunerated by the Group for his Executive appointment.

Fees for the year ended 31 December 2016 were set at £42,500 per annum for Non-Executive Directors.

	Notes	**2016 Fees (£000)**	**2015 Fees (£000)**
Bob Newton (Chairman)	1	115.6	104
Neil McKenzie	2	57.5	53
Caroline Fawcett	3	50	50
Graham Singleton	4	52.5	54
David Lister	5	52.5	50
Diane Buckley	-	42.5	20
Julie Hopes	-	42.5	20

Notes:
1. During 2016 the Remuneration Committee agreed to increase the Chairman's fee from £110,000 to £117,500 per annum, effective 1 April 2016.
2. Neil McKenzie acted as Chair of the Risk Committee and Senior Independent Director during the period and the associated fees of £10,000 and £5,000 per annum, respectively, are included above.
3. Caroline Fawcett acted as Chair of the Remuneration Committee during the period and the associated fee of £7,500 per annum is included above.
4. Graham Singleton acted as Chair of the Audit Committee during the period and the associated fee of £10,000 per annum is included above.
5. David Lister acted as Chair of the Transformation Committee during the period and the associated fee of £10,000 per annum is included above.

Co-op Insurance Board Audit Committee
The purpose of the Committee is to assist the Board in discharging its responsibilities for the integrity of the Company's financial statements, to review the effectiveness of internal controls and risk management systems and to monitor the effectiveness and objectivity of internal and external auditors. 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.

Meetings of the Audit Committee are generally attended by the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Head of Internal Audit and the Group Director of Internal Audit, although none attend as of right. The external auditor attends Committee meetings and private meetings are held with key individuals involved in governance in addition to the internal and external auditors as necessary to afford them the opportunity of discussion without the presence of management.

The Committee held 7 meetings during the year.

Co-op Insurance Board Audit Committee (continued)

The Committee members during the financial year are listed below, with all appointments held for the full period.

Audit Committee Members

Graham Singleton (Chair)
Neil McKenzie
Diane Buckley
Julie Hopes

Change of Auditors

Ernst & Young LLP were appointed to succeed KPMG LLP as auditors of the Group and its subsidiaries by resolution at the Group's 2016 AGM at which the Directors were also authorised to determine their remuneration. A further resolution will be proposed at the Group's 2017 AGM to re-appoint Ernst & Young LLP as the Group's auditors and to determine their remuneration for the forthcoming year.

Co-op Insurance Board Risk Committee

The purpose of the Board Risk Committee is to oversee and advise the Board on current and potential risks and the overall risk framework. The Committee also oversees Co-op Insurance's risk management arrangements, ensuring that Risk Appetite is appropriate and adhered to and that key risks are identified and managed. 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;
- Review of Co-op Insurance Own Risks Self Assessment (ORSA) key assumptions, policy and report; and recommending to the Board for approval;
- Reviewing and challenging the design of the RMF, Risk Appetite limits and tolerances and recommending to the Board for approval;
- Reviewing and challenging the implementation of the RMF through the semi-annual risk and control certification process and reviewing the quality and effectiveness of the RMF, systems and function;
- Reviewing and challenging internal controls and processes 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;
- Reporting on the effectiveness of the RMF and systems to the Board; and
- Advise the Remuneration Committee on any risk adjustment to incentive scheme payments.

The Committee held 5 meetings during the financial year.

Meetings of the Risk Committee are generally attended by the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Head of Internal Audit, Chief Actuary, Head of Regulatory Risk and Head of Enterprise Risk, although none attend as of right.

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

Risk Committee Members

Neil McKenzie (Chair)
Caroline Fawcett
Graham Singleton
David Lister
Diane Buckley

Co-op Insurance Remuneration Committee

The Committee acts independently and gives due consideration to existing and forthcoming laws, regulations, best practice views, research and initiatives when carrying out its duties. These include determining the terms and conditions of employment pay and benefits of the Executive Directors and the Chairman, exercising of certain powers under the terms of long term incentive plans and provision of advice to the Board on the remuneration policy in relation to senior executives. Responsibilities include:

- Determining the remuneration policy for the Co-op Insurance executive, in conjunction with the Co-operative Group Remuneration Committee, ensuring that this is in line with Group Remuneration policy and complies with relevant regulatory guidance;
- Having responsibility for setting the remuneration for each of the Co-op Insurance Executives;
- Maintaining an awareness of reward and remuneration arrangements for Co-op Insurance employees; and
- Determining the fees payable to the Co-op Insurance Chair.

The Committee held 6 meetings during the year.

Meetings of the Remuneration Committee are generally attended by the Chief Executive Officer, Head of HR, Lead Reward Manager and the Board Chair, although none attend as of right.

New Bridge Street (an Aon Hewitt company) continued to act as the Committee's remuneration advisors. New Bridge Street supplies survey data, market trends and other general remuneration advice and attends Committee meetings at the request of the Committee Chair.

Co-op Insurance Remuneration Committee (continued)
New Bridge Street also continued to act as remuneration advisors to the Group during the year. For the purposes of avoiding conflicts of interest, New Bridge Street confirmed on appointment that it would treat each entity as a separate client and would not share any unpublished information. Co-op Insurance continues to have a separate engagement letter with New Bridge Street.

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

Remuneration Committee Member

Caroline Fawcett (Chair)
David Lister
Julie Hopes

Co-op Insurance Board Transformation Committee
The purpose of the Committee is to oversee the Transformation Programme and advise and make recommendations to the Board and Executive regarding related material matters and their impact on the Strategic Plan. Responsibilities include:

- Review and challenge Transformation Programme activities to ensure performance is in the best interests of key Co-op Insurance stakeholders and aligned to the Co-op Insurance 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 Programme benefits and the Strategic Plan; and
- Periodically review and approve the mandate of the Transformation Programme, in particular ensuring that it has adequate resources to enable it to perform its function effectively.

The Committee held 12 meetings during the year.

Meetings of the Transformation Committee are generally attended by the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Head of Internal Audit, Chief Information Officer and relevant member from the Transformation Programme although none attend as of right and core suppliers are invited as appropriate.

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

Transformation Committee Members

David Lister (Chair)
Graham Singleton
Caroline Fawcett
Alistair Asher
Julie Hopes

Co-op Insurance Nomination Committee
The purpose of the Committee is to review and make recommendations on the Board composition, succession planning for Executive Directors, Non-Executive Directors and members of the Executive, to identify and nominate candidates for Board vacancies and evaluate candidates for the Board. Responsibilities include:

- Identifying and nominating candidates to fill Board vacancies as and when they arise;
- Review the structure, size and composition of the Board and make recommendations to the Board with regard to any changes;
- Give full consideration to succession planning for Directors and other members of the Executive; and
- Keep under review the leadership needs of the organisation, both Executive and Non-Executive.

The Committee met twice during the year.

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

Nomination Committee Members

Bob Newton (Chair)
Diane Buckley
Neil McKenzie

Report of the Board of Directors

Risk Management and Internal Controls

The Board has overall responsibility for Co-op Insurance's internal control systems and for monitoring their effectiveness. Implementation and maintenance of the internal control systems are the responsibility of the Board and senior management.

The Board has established a management structure with defined lines of responsibility and clear delegation of authority. The control framework cascades through the business, detailing clear responsibilities for ensuring appropriate controls are in place at an operational level, including controls relating to the financial reporting process. Co-op Insurance's approach to Risk Management is set out in further detail on pages 32 to 33.

Co-op Insurance's internal control systems are designed to manage, rather than eliminate, the risks of failure to meet business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. In assessing what constitutes reasonable assurance, the Board has regard to materiality and to the relationship between the cost of, and benefits from, internal control systems.

On behalf of the Board, the Audit Committee regularly review the effectiveness of Co-op Insurance's internal control systems. Its monitoring covers all material controls. Principally it reviews and challenges on an ongoing basis, reports from management, the internal audit function and external auditors. This enables it to consider how to manage or mitigate risk in line with Co-op Insurance's risk strategy.

Whenever any significant control weaknesses are identified actions are taken, or agreed plans are put in place and tracked by the Board to implementation.

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.

Co-operative and Community Benefit Society Law, as modified by 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 the accounts for Co-op Insurance in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

As required by law, the Directors must not approve the report and accounts unless they are satisfied that they give a true and fair view of the state of affairs of Co-op Insurance 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 accounts on the going concern basis unless it is appropriate to presume that Co-op Insurance will not continue in business.

The Directors are of the view that the Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy.

The Directors are responsible for keeping adequate accounting records that disclose, with reasonable accuracy, at any time, the financial position of Co-op Insurance 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 Co-op Insurance 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 the Co-op Insurance 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
Katy Arnold, Secretary
CIS General Insurance Limited
Miller Street
Manchester
M60 0AL

5 April 2017

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

We have audited the financial statements of CIS General Insurance Limited ("Co-op Insurance") for the year ended 31 December 2016 which comprise the income statement, the statement of comprehensive income, Statement of financial position, the statement of cash flows, the statements of changes in equity and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to Co-op Insurance's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied by Co-op Insurance 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 and section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to Co-op Insurance's members those matters we are required to state to them in an auditor's report and to facilitate compliance by Co-op Insurance Directors with the requirement relating to section 496 of the Companies Act 2006, as applied to Co-op Insurance by Regulation 3 of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Co-op Insurance and Co-op Insurance'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 18, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of Co-op Insurance's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as applied in accordance with the provisions of the Insurance Accounts Directive (miscellaneous Insurance Undertakings) Regulations 2008, which apply the provision 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 Directives (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 Co-operative Insurance Directors with the requirement relating to section 496 of the Companies Act 2006, as applied to Co-operative Insurance by Regulation 3 of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the society and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' report.

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

Giles Watson (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
5 April 2017

The maintenance and integrity of the CIS General Insurance Limited's web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income statement

For the year ended 31 December 2016
All amounts are stated in £m unless otherwise indicated

	Notes	2016	2015
Income			
Gross earned premiums		**466.5**	375.8
Less premiums ceded to reinsurers		**(27.5)**	(30.6)
Net earned premiums	3	**439.0**	345.2
Fee and commission income	4	**13.0**	11.2
Investment income	5	**13.0**	15.3
Gains less losses arising from financial instruments	6	**1.4**	2.9
Net income		**466.4**	374.6
Claims paid		**(321.0)**	(292.4)
Less amounts receivable from reinsurers		**8.7**	6.0
Net policyholder claims and benefits paid	7	**(312.3)**	(286.4)
Change in insurance contract liabilities	22c	**33.1**	45.6
Change in reinsurance assets	22c	**(14.7)**	(3.3)
Net policyholder claims and benefits incurred		**(293.9)**	(244.1)
Fee and commission expenses	8	**(27.1)**	(19.8)
Other acquisition expenses	9	**(35.9)**	(28.4)
Administration expenses	9	**(98.3)**	(95.4)
Finance costs		**(8.6)**	(5.6)
Profit/(loss) before transformation costs and taxation		**2.6**	(18.7)
Costs in respect of Transformation Programme	9	**(28.8)**	(47.4)
Loss before taxation		**(26.2)**	(66.1)
Income tax	11	**5.5**	14.3
Loss for the financial year		**(20.7)**	(51.8)

The accounting policies and notes on pages 26 to 66 form part of these financial statements

Statement of comprehensive income

For the year ended 31 December 2016
All amounts are stated in £m unless otherwise indicated

	Notes	**2016**	2015
Loss for the financial year		**(20.7)**	(51.8)
Net changes in fair value in available for sale assets		**16.7**	(5.9)
Net gains transferred to the income statement for available for sale assets		**(1.4)**	(2.9)
Income tax	23	**(2.6)**	1.8
Other comprehensive Income/(expense) for the financial year, net of income tax		**12.7**	(7.0)
Total comprehensive (expense) for the financial year		**(8.0)**	(58.8)

The accounting policies and notes on pages 26 to 66 form part of these financial statements

Statement of financial position

At 31 December 2016

All amounts are stated in £m unless otherwise indicated

	Notes	2016	2015
Assets			
Property, plant and equipment	12	**0.8**	0.8
Intangible assets	13	**1.6**	1.7
Deferred acquisition costs	14	**30.7**	28.1
Reinsurance assets	22	**53.5**	68.5
Financial investments at fair value through income or expense	15	**225.9**	199.1
Available for sale assets	16	**687.7**	692.0
Current tax assets	23	**14.3**	9.6
Insurance receivables and other assets	17	**183.7**	219.8
Total assets		**1,198.2**	1,219.6
Capital and reserves attributable to equity holders			
Share capital	19	**268.0**	268.0
Retained earnings	20	**(29.5)**	(8.8)
Other reserves	20	**76.1**	63.4
Total equity		**314.6**	322.6
Liabilities			
Insurance contract liabilities	22	**723.4**	746.2
Borrowed funds	21	**67.7**	67.7
Deferred tax liabilities	23	**7.0**	5.0
Reinsurance liabilities	24	**6.6**	7.4
Insurance and other payables	25	**73.1**	67.1
Cash and cash equivalents	18	**5.8**	3.6
Total liabilities		**883.6**	897.0
Total equity and liabilities		**1,198.2**	1,219.6

Approved by the Board of Directors on 5 April 2017 and signed on its behalf by:

Robert Newton, Chairman

Mark Summerfield, Chief Executive Officer

Katy Arnold, Secretary

The accounting policies and notes on pages 26 to 66 form part of these financial statements

Statement of cash flows

For the year ended 31 December 2016

All amounts are stated in £m unless otherwise indicated

	Notes	2016	2015
Cash flows from operating activities			
Loss before taxation		**(26.2)**	(66.1)
Adjustment for:			
Interest payable		**8.6**	5.6
Fixed asset depreciation		**0.1**	0.1
Intangible asset depreciation		**0.1**	-
Investment income		**(13.0)**	(15.3)
Gains less losses arising from financial instruments		**(1.4)**	(2.9)
Increase in deferred acquisition costs		**(2.6)**	(7.9)
Decrease in reinsurance assets		**15.0**	3.4
Decrease in financial investments at fair value through income and expense		**(26.8)**	(42.8)
Decrease/(increase) in insurance receivables and other assets		**36.2**	(62.5)
(Decrease)/increase in insurance contract liabilities		**(22.8)**	8.6
(Decrease)/increase in reinsurance liabilities		**(0.8)**	6.9
Investment interest received		**22.9**	28.5
Capital cash movement on investments held as available for sale		**11.0**	55.3
Increase in insurance and other payables		**6.0**	32.5
Income tax paid	23	**-**	(1.8)
Net cash flows from operating activities		**6.3**	(58.4)
Cash flows from investing activities			
Purchase of tangible fixed assets		**(0.1)**	(0.7)
Purchase of intangible fixed assets		**-**	(0.1)
Net cash flows from investing activities		**(0.1)**	(0.8)
Cash flows from financing activities			
Increase in subordinated loans		**-**	67.7
Interest paid		**(8.4)**	(4.2)
Net cash flows from financing activities		**(8.4)**	63.5
Net (decrease)/increase in cash and cash equivalents		**(2.2)**	4.3
Cash and cash equivalents at the beginning of the financial year		**(3.6)**	(7.9)
Cash and cash equivalents at the end of the financial year	18	**(5.8)**	(3.6)

Cash flows from operating activities

Co-op Insurance 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 claims incurred for insurance contracts, which are classified under operating activities.

The accounting policies and notes on pages 26 to 66 form part of these financial statements

Statement of changes in equity

For the year ended 31 December 2016

All amounts are stated in £m unless otherwise indicated

	Share capital	Available for sale reserve	Capital reserve	Retained earnings	Total
2016					
Balance at the beginning of the financial year	**268.0**	**6.3**	**57.1**	**(8.8)**	**322.6**
Total comprehensive income/(expense) for the financial year:					
Loss for the year	**-**	**-**	**-**	**(20.7)**	**(20.7)**
Other comprehensive income	**-**	**12.7**	**-**	**-**	**12.7**
Balance at the end of the financial year	**268.0**	**19.0**	**57.1**	**(29.5)**	**314.6**
2015					
Balance at the beginning of the financial year	268.0	13.3	57.1	43.0	381.4
Total comprehensive (expense)/income for the financial year:					
Loss for the year	-	-	-	(51.8)	(51.8)
Other comprehensive income	-	(7.0)	-	-	(7.0)
Balance at the end of the financial year	268.0	6.3	57.1	(8.8)	322.6

The accounting policies and notes on pages 26 to 66 form part of these financial statements

1. Basis of preparation and significant accounting policies

CIS General Insurance Limited 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 Board of Directors on 5 April 2017.

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 Co-op Insurance 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 on a going concern basis 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 financial information has been prepared under the historic cost convention as modified by available for sale financial assets and other financial assets and financial liabilities held at fair value. Co-op Insurance 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 2016.

Adoption of new and revised standards

There are a small number of narrow scope amendments arising from annual improvements to standards that are applicable for the first time in 2016, none of which have had a significant impact on the financial statements.

Standards and interpretations issued but not yet effective

- IFRS 9 ‘Financial Instruments’ and IFRS 17 ‘Insurance Contracts’

  The IASB expects to publish IFRS 17 ‘Insurance Contracts’ during the first half of 2017. The adoption date for the new standard will be 2021, at the latest, and Co-op Insurance has begun to review implications for the business.

  The amendment to IFRS 4 ‘Insurance Contracts’ (not yet adopted by the EU) provides the option to apply IFRS 17 from the adoption date of January 2018 or to defer for up to three years. IFRS 17 Is expected to have an effective date of 1 January 2021 and Co-op Insurance is considering the impacts.

- IFRS 15 ‘Revenue recognition’

  Revenue arising from insurance contracts and from financial instruments is outside the scope of IFRS 15. The standard becomes effective from 1 January 2018. The impact of IFRS 15 is yet to be reviewed by the society.

- IFRS 16 ‘Leases’

  In January 2016, the IASB issued IFRS 16 ‘Leases’ to replace the existing standard IAS 17, which is effective from 1 January 2019 but with earlier adoption permitted. The impact is currently being reviewed by the society.

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 22 (b). Additionally further reference is made within the risk management section in relation to insurance risk on page 36.

In deriving the fair value of assets and liabilities the methods and assumptions used by the society are detailed within the Fair values of financial assets and liabilities in note 30 (pages 63 to 66).

1. Basis of preparation and significant accounting policies (continued)

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 insurance and non-insurance specific accounting policies and insurance accounting policies. The insurance accounting policies are detailed in accounting policy 15 on pages 30 and 31. The major methods and assumptions used in estimating the fair values of financial instruments are detailed in note 30.

(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

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.

Costs that are directly associated with the internal production of tangible assets that will generate future economic benefit are capitalised and recognised as tangible assets in the course of construction. Assets in the course of construction are only depreciated when they are commissioned for use.

(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 costs 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.

(3) Financial instruments

Co-op Insurance 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 Co-op Insurance 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
- Co-op Insurance 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 classified as available for sale

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

Subsequent valuation is at fair value with movements recognised in other comprehensive income as they arise, interest is recognised on the effective interest rate basis in the income statement, refer to accounting policy note 9 (page 29) for further details. Where there is evidence of impairment, the extent of any impairment loss is recognised in the income statement. For further information refer to note 3(vii) on page 28. An effective interest rate for each holding is calculated on initial recognition and subsequently recognised in the income statement over the lifetime of the bond.

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

1. Basis of preparation and significant accounting policies (continued)

(3) Financial instruments (continued)

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 Co-op Insurance does not intend to sell immediately or in the near term. For Co-op Insurance 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 Co-op Insurance 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.

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 are subsequently measured at amortised cost.

Borrowed Funds

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 statement of financial position date, Co-op Insurance 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 through other comprehensive income 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.

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.

1. Basis of preparation and significant accounting policies (continued)

(3) Financial instruments (continued)

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.

(4) Sale and repurchase arrangements

Co-op Insurance participates in reverse sale and repurchase transactions whereby Co-op Insurance buys gilts but is contractually obliged to sell them at a fixed price on a fixed future date. Cash loaned under reverse repo arrangements are classified as deposits with credit institutions within financial investments at fair value through income or expense on the statement of financial position as a result of Co-op Insurance 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. Banking facilities that are repayable on demand and form an integral part of Co-op Insurance 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 statement of financial position 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 Co-op Insurance non-financial assets, excluding deferred tax assets and reinsurance assets, are reviewed at the statement of financial position 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 statement of financial position if Co-op Insurance 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

Co-op Insurance's accounting policy in respect of revenue arising from insurance contracts is set out within the insurance specific accounting policy 15(i) on page 30.

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, Co-op Insurance estimates cash flows considering all contractual terms of the instrument (for example prepayment options) but does not consider future credit losses.

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

Fee and commission income

Fees and commission receivable mainly relates to administration fee income, and brokerage commission received for products not underwritten by Co-op Insurance, both recognised as the service is provided.

(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 in 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.

1. Basis of preparation and significant accounting policies (continued)

(11) Income tax (continued)

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 statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax
Deferred tax is provided using the statement of financial position 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 statement of financial position 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 Co-op Insurance is sterling. Substantially all transactions conducted by Co-op Insurance are in sterling. All amounts presented are stated in pound sterling and millions, unless stated otherwise.

(13) 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 Co-op Insurance. Once these profit based payments are approved by The Co-operative Group Limited, Co-op Insurance 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 (2015: £nil).

(14) Dividends to shareholders
Dividends are only recognised in the annual report and accounts by Co-op Insurance once they have been approved by the shareholders in a general meeting.

(15) Insurance accounting policies
Contracts under which Co-op Insurance 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 Co-op Insurance 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 adjustments in the accounting period relating to premium receivable in respect of business written in prior periods.

Gross written premiums:
- are stated gross of commission and exclude any taxes or levies based on premiums;
- include an estimate for cancellations for those renewal contracts which incepted prior to the year-end but which may be cancelled after the statement of financial position date: and
- include an estimate of pipeline premium.

Gross written premium (whether paid in advance or by instalments) is earned evenly over the period of the contract (usually twelve months).

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

1. Basis of preparation and significant accounting policies (continued)

(15) Insurance accounting policies (continued)

iv) Claims outstanding

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

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

Aggregate claims provisions, which include attributable claims handling expenses, are set at a level such that no adverse or positive run off deviations are expected. 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.

Outstanding reserves are discounted in respect of periodical payments and a portion of historic liability claims from the electric industry for which separate assets are held of appropriate term and nature.

v) Unexpired risk provision

Additional provision is made for unexpired risks where the claims and expenses, likely to arise after the end of the financial year in respect of contracts concluded before that date, are expected to exceed the unearned premiums less deferred acquisition costs carried forward for those contracts.

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

Such provisions seek to 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 statement of financial position.

Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position 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.

(16) Transformation Costs

The costs associated with the implementation of the Transformation Programme are charged to the income statement as incurred, with recognition of assets where the technical accounting criteria are met.

Costs that are capitalised would be held within the asset section of the statement of financial position and be amortised in accordance with Co-op Insurance stated policies.

As the Transformation Programme is intended to fundamentally change the way the organisation operates, it is deemed appropriate to treat the expensed costs separately within the income statement as an exceptional item.

2. Risk Management and Capital Management

i)Risk Management

Co-op Insurance 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 Co-op Insurance manages them.

Developments during 2016

Co-op Insurance has a stand-alone Risk Management Framework (RMF) which is well developed, having been in operation for a number of years and embedded within the business. Development activity continues to take place to improve all components of the framework. During 2016 the most significant developments in the RMF were the following:

- Adopting and implementing the requirements from the Senior Insurance Managers Regime (SIMR)
- Undertaking a high-level effectiveness review of the Co-op Insurance Governance Map/System of Governance
- Strengthening the measurement and reporting of customer outcomes
- Effectiveness review of the Risk Management Framework

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

Our approach to risk management

Co-op Insurance operates a RMF that is designed to aid consistent management of risks at all levels in the business in accordance with a 'Three Lines of Defence' model. This model ensures appropriate responsibility and accountability is allocated to the identification, measurement, management, monitoring and reporting of risks.

The 'First Line of Defence' is the Risk Framework Owners (RFO's) from Executive and Business Management. The respective risk personnel are responsible for supporting the RFO's with their accountability to the Board and assisting with management of risk in day to day operations. The RFO's are responsible for implementing and operating processes to identify, measure, manage, monitor and report risks. They manage the risks that reside within the business areas on a day-to-day basis and implement effective monitoring and control processes to ensure that the business risk profile is understood and maintained within the Board's defined risk appetite.

The 'Second Line of Defence' is the Chief Risk Officer (CRO) and the Risk function. The Risk function is responsible for supporting the CRO with their accountability to the Board which is to provide oversight of current risk exposures of the business. They own the RMF, oversee and challenge its implementation and operation by the first line of defence, and consider current and emerging risks across Co-op Insurance. They also provide review and challenge to the risk and controls in place and oversee appropriate escalation of risk reporting through to Board.

The 'Third Line of Defence' is led by the Head of Internal Audit and independently challenges 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 line models. Internal Audit is responsible for providing independent, objective assurance that the RMF has been implemented as intended across the business and is embedded and functioning effectively.

Risk assessment of Co-op Insurance

Co-op Insurance has undertaken a robust assessment of the principal risks facing the business. It has developed its Own Risks and Solvency Assessment (ORSA) process, which is an integral part in developing its Strategic Plan. This ORSA report includes a comprehensive picture of the risks that Co-op Insurance is exposed to or could face in the future. These risks are summarised on page 34.

The prospects of Co-op Insurance as at 31 December 2016 have been assessed using the latest information (the 2016 year end position), the 2017 Strategic Plan, which was approved by the Co-op Insurance Board in January 2017 and an update to the Strategic Plan which was presented to the Board in March 2017. Based on this information, Co-op Insurance has adequate capital and liquidity to continue its operation. 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 the Co-op Insurance Risk Management Framework, the 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 RFO 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 Co-op Insurance'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.

Co-op Insurance has developed and implemented a governance and organisation structure, which supports the Board. The Board has established risk and audit committee to:

- Oversee and advise the Board of Co-op Insurance on current and potential risks and the overall risk framework
- Ensure that Risk Appetite is appropriate and adhered to and that key risks are identified and managed
- Review the effectiveness of internal controls and risk management systems

2. Risk Management and Capital Management (continued)
i) Risk Management (continued)

All Board committees have Terms of Reference describing the authority delegated to them by the Board, and the Board ensures that each committee is provided with sufficient resources to enable it to undertake its duties. The main roles and responsibilities of each committee can be found within the Directors Report on pages 15 to 17.

To assist the Board in carrying out its functions and to ensure that there are internal controls and risk management, the Board has delegated certain responsibilities to a set of Board committees and the Chief Executive Officer (CEO) who has, in turn, delegated elements of these responsibilities to appropriate members of the senior management team. To ensure independent oversight the CRO also has accountability to the Board Risk Committee.

Co-op Insurance has produced a Governance Map which sets 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.

Co-op Insurance Executive Committee (ExCo)
The purpose of ExCo is to monitor performance of the business, oversee its customer and business strategic direction, and ensure both timely issue resolution and decision making for matters and decisions referred to it from sub-committees. Responsibilities include:

- Overseeing the establishment and maintenance of appropriate risk management systems and controls in line with the Board agreed RMF;
- 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 Co-op Insurance.

Co-op Insurance Transformation Executive Steering Committee (TES)
The purpose of TES is to prioritise and monitor the delivery of the Transformation and Business Critical Plans. Responsibilities include:

- Overseeing the delivery of the Co-op Insurance 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 Co-op Insurance resources, by monitoring demand to ensure successful delivery of the Roadmap;
- Oversight of the Co-op Insurance Benefits Realisation tracking plans; and
- Ensuring design decisions consider the implications on both the current Co-op Insurance operating model and the new operating model.

Co-op Insurance Executive Risk Committee (ERC)
The ERC ensures that all key strategic elements of Co-op Insurance are governed, fostering a culture that emphasises and demonstrates the benefits of a risk-based approach to decision making, internal control and management. Responsibilities include:

- Driving the detailed implementation of the Co-op Insurance RMF approved by the Board;
- Providing a mechanism for ensuring that the Co-op Insurance-wide risk and capital management requirements, developments, and processes are in place;
- Reviewing, challenging and recommending for approval the Risk Strategy, RMF, and Risk Appetite Statement;
- Reviewing, challenging and recommending for approval Risk Policies, Risk Appetite limits and tolerances;
- Reviewing approaches to stress testing, risk management reporting and governance, and referring them to the BRC for review, challenge and recommendation for approval by the Board;
- Reviewing the effectiveness of Governance and the RMF, including providing challenge and assurance that all risk and control actions are being managed;
- On a periodic basis, assessing the performance of the RMF; and
- Monitoring the business's risk profile against the agreed limits and tolerances and reporting on these to the BRC.

Senior Management Committees
Co-op Insurance 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;
- Commercial;
- Capital, Liquidity, Investment and Pension;
- Reserving;
- Data Governance; and
- Model Governance.

All amounts are stated in £m unless otherwise indicated

2. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Principal risks

Principal risks are the highest category of inherent financial and non-financial risks to which Co-op Insurance is exposed. The following are considered to be the Principal risks facing Co-op Insurance:

Risk Type	Definition	Page
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	35
Transformation risk	The risk that failure of the Transformation Programme leads to the business failing to re-platform, leading to the need for an alternative strategy to be deployed with cost, time and business sustainability impacts	35
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	35
Conduct risk	The risk that Co-op Insurance's behaviours, offerings or interactions will result in unfair outcomes for customers	35
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	36
Insurance risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities	36
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 for example interest rates, market prices of assets and liabilities	37
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events	38
People risk	The risk associated with the recruitment, employment and management of individuals within Co-op Insurance	39
Liquidity risk	The current and prospective risk to earnings or capital arising from Co-op Insurance's inability to meet its obligations when they come due without incurring unacceptable losses	39
Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations	40
Pension risk	The risk to capital and 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	42
Group risk	The risks that arise through being part of The Co-operative Group	42

For each of the risks, Co-op Insurance appoints a Risk Framework Owner (RFO). The RFO is required to define and document a risk framework, which comprises a Risk Policy, Control Standard(s) and risk appetite and to certify to the effectiveness of the control framework used to manage the risk on a semi-annual basis.

2. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Strategic and Business risk

Strategic and Business risk 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. The Board currently regard the current operating model as a risk to meeting cost efficiency in the face of rapidly changing customer expectations and technology developments. To manage this risk the Board approved Transformation Programme including replacement of components of the IT estate. Co-op Insurance's financial objective in managing these risks is to generate a sufficient, stable and sustainable return on equity. Co-op Insurance aims to maintain a sufficient capital buffer in excess of minimum regulatory capital requirements to cover projected risks and maintain market confidence. Co-op Insurance aims to minimise expense risk and transformation implementation costs, whilst supporting successful transformation delivery. The Board have defined detailed risk appetite measures and limits underpinning these objectives, which are measured, monitored and reported regularly to the ERC, BRC and Board.

Sales performance has been well ahead of plan due to a combination of rates increasing in Motor and our more focused member marketing and pricing. The business completed the consultation process around the closure of the Rugby Claims Office, which was closed during mid-December.

Transformation risk

As noted in the strategic report on page 3, at the outset it was expected that the Transformation Programme would have delivered major elements of the new systems by the end of 2016, but to date it has failed to meet those expectations and there is ongoing substantial delay.

Co-op Insurance is in discussion with the primary programme supplier about the future direction of the Programme, including timescale and content. In the meantime, Co-op Insurance is taking active steps to address this delay, and is investigating actions to sustain momentum of the core system renewal and up-grade.

The company has, and continues to, successfully transform those elements of the business not dependant on new IT systems. In 2016 there was significant progress in pricing capability and the use of member data to enhance products and services. In addition, a new telephony system was implemented to improve customer services.

The Transformation Programme and Risks are governed through the Transformation Executive Steering Committee reporting to the Board Transformation Committee. The terms of reference for these Committees can be found on pages 33 and 17 respectively.

In addition to Programme Governance and controls, further assurance is provided by risk management embedded within the Programme and also by Internal Audit and third party assurance providers, who are engaged as deemed appropriate by the governance committees noted above.

Reputational risk

Reputational risk is defined as the risk associated with an issue which could in some way be damaging to the brand of Co-op Insurance either through its strategic decisions, business performance, an operational failure or external perception. Co-op Insurance's objective is to maintain a strong reputation in line with its values and principles through robust operational standards, continual monitoring of corporate reputation and brand.

As part of the assessment and control of this risk, business performance and risk profile across all risk types are closely monitored and reviewed. Co-op Insurance 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 and the risk is regularly monitored and reported to the ERC, BRC and Board.

The early part of the year saw a raised profile, being set against a backdrop of Group activities (moving from recover into rebuild and the Financial Conduct Authority (FCA) reviews into the Co-operative Bank). This position reduced throughout the year as these issues were resolved and there was positive press reaction to the Group brand re-launch. This was followed by the Group re-launch of the membership scheme in September which is pointing to an improving outlook in 2017.

Conduct risk

Conduct risk is the risk that Co-op Insurance'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 FCA.

Co-op Insurance's objective is to conduct business in a way that results in consistent fair outcomes for our customers through the operation of a robust conduct risk strategy and framework and the application of systems and controls in conjunction with on-going oversight and monitoring from risk functions. These established systems and controls are designed to detect, mitigate, remediate and prevent emerging conduct risk. Plans are in place to comply with the Competition and Markets Authority compliance requirement in relation to transparency over Protected No Claims Discount. In 2016, a redress project was undertaken following the discovery of a system fault which resulted in an incorrect calculation of premium for a subset of customers. All impacted customers were redressed and systems fixes were implemented to prevent a reoccurrence of the issue.

The establishment of a Customer Committee which focussed on consistent delivery of good customer outcomes was a step forward in managing conduct risk supported by revised monthly Conduct risk management information. The Committee was established to ensure that Co-op Insurance understands the drivers of experience across all customer journeys. The Quality Assurance and Training & Competency Framework has been redesigned to focus on customer outcomes and was implemented towards the latter part of the year.

2. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Regulatory risk

Regulatory risk is the risk of regulatory sanctions, regulatory censure, material financial loss or loss to reputation Co-op Insurance may suffer as a result of its failure to comply with regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its activities. Co-op Insurance'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. The legacy infrastructure has restricted the ability to respond precisely to some aspects of prescriptive regulation which have been mitigated by manual workarounds and open communication with customers and where no further corrective action can be taken, a process of risk acceptance has been put in place.

The Solvency II EU Directive went live in January 2016, requiring Co-op Insurance to operate under a new regulatory regime, along with other UK insurers. Following the implementation of Solvency II into the business, Co-op Insurance closed its Solvency II Programme. The level of regulatory interaction remained high as the business responded to supervision by both the Prudential Regulatory Authority (PRA) and the FCA, which included visits to the business and requests for information. Co-op Insurance adopted the Senior Insurance Managers Regime (SIMR) which went live in March 2016 and has continued embedding the requirements throughout the year.

Insurance risk

Insurance risk comprises the risk of loss resulting from premiums not yet written or earned, from future claims events other than catastrophes (Premium Risk), from adverse change in the value of insurance liabilities (Reserve Risk) and from natural or man-made catastrophe events (Catastrophe Risk).

The main classes of business written are UK private Motor and Home business, either written directly or through brokers. In addition, Co-op Insurance writes some commercial insurance business, which is 100% reinsured, although this book is now in run off. Co-op Insurance continues to manage commercial Motor business which is also in run off but still has liabilities ensuing, and a small book of pet insurance. Almost all risks under general insurance policies cover a 12 month duration.

Key risks under Motor policies are bodily injury to third parties, accidental damage to property including policyholders', 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. The reduction in the discount rate used to calculate these claims which was announced in February 2017 has increased the likely cost of cash settlement and has been reflected in the 2016 closing claims reserves. Periodic Payment Orders (PPO's) are being used to settle injury claims in the UK, with compensation being paid to claimants at regular intervals, rather than in a single lump sum award. This introduces further risk to the insurer as the term of the payments is dependent upon length of life expectancy and the payments increase with care worker future inflation.

Key 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.

At the statement of financial position date there were no significant concentrations of insurance risk. Co-op Insurance manages insurance risk in accordance with its overall aims to achieve acceptable profits and return on equity. This is achieved 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;
- Minimising reserve risk volatility through proactive claims handling, the claims provisioning process and robust reserving and modelling approaches; and
- Mitigating risk through the use of appropriate reinsurance arrangements.

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 22 (page 55).

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. Co-op Insurance 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. Co-op Insurance manages this risk through the Reserving Committee which supports the Chief Financial Officer (CFO) in their responsibility to formally review claims reserves on a quarterly basis.

Co-op Insurance 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 proposed by management and approved by the Board, using Co-op Insurance's Internal Model to inform decision making.

In 2016, Co-op Insurance had three main reinsurance programmes in place: catastrophe excess of loss cover, motor excess of loss cover and cover to protect against a significant deterioration in prior years' reserves. Other reinsurance arrangements include the 100% reinsurance of the commercial insurance business being written by Co-op Insurance detailed above. For 2017, Co-op Insurance has entered into a quota share arrangement of both its Motor and Home business and the new programme provides additional solvency protection and still offers a significant amount of risk transfer.

Insurance risk sensitivity analysis can be found in note 22 b iii on page 56.

2. Risk Management and Capital Management (continued)

i) Risk Management (continued)

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.

Co-op Insurance 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 (reverse repo transactions). 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.

Co-op Insurance is also exposed to market interest rates through the discounted present value placed upon future claims. All future claims are discounted for assessing solvency on both an economic and Solvency II basis. However, IFRS short term insurance reserves (normally less than five years) are not directly affected by market interest rates as they are undiscounted.

Co-op Insurance 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 Co-op Insurance is not a participating employer, it has an agreement to pay pension contributions relating to staff employed by CFS Management Services Limited (CFSMS) that are assigned to work for Co-op Insurance. Through this Co-op Insurance is indirectly exposed to market risks (including interest rate, credit spread, equity and property), of the Co-operative Group pension scheme (PACE).

In summary, the key market risks that Co-op Insurance is exposed to are:

- Fluctuations in interest rates, allowing for the impact on both asset and liability values, and investment income;
- Movements in credit-spreads which impact the market value of corporate bonds; and
- Changes in the relationship between interest rates which have similar but not identical characteristics

Market Risk - Objective and strategy

Co-op Insurance'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.

Co-op Insurance's investments are managed by Royal London Asset Management with whom Co-op Insurance have an agreed investment mandate with limits for exposure by credit-rating, maximum terms and maximum exposure to individual counterparties.

Co-op Insurance 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 support the Chief Financial Officer (CFO) in overseeing the monitoring and management of these risks and exposures against limits.

The investment mandate sets strategic asset allocation and limits of investments types and duration and is approved by the Board. This is determined through considering the risk/reward trade off and the impact upon capital adequacy and solvency of the overall business, which relies on outputs from Co-op Insurance's Internal Model. Throughout 2016 the mandate has been set to reduce the market risk exposure during the transformation of Co-op Insurance.

Interest-rate risk is managed through investing in fixed interest securities with a similar duration profile to the liabilities under the general insurance contracts. Co-op Insurance matches the average duration of assets and liabilities in this portfolio by estimating their mean duration. The mean duration of financial assets is measured against the Co-op Investment mandate and remained within these boundaries during the period. The mean duration of insurance liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from insurance contracts in force at the statement of financial position date (both incurred claims and future claims arising from the unexpired risks at the statement of financial position date).

Duration in years	**2016**	**2015**
Insurance liabilities	2.7	2.8
Financial assets	1.7	1.8

Index-linked investments and other specific debt securities are used to match periodic payment orders (PPO's)'s and provisions relating to exposure within the historic liability claims from the electric industry 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.

2. Risk Management and Capital Management (continued)
i) Risk Management (continued)

Market Risk - Objective and strategy (continued)
Mean durations for these exposures are:

2016	Amount (£m)	Duration (Years)
Periodical payment orders (PPO)		
Insurance liabilities	21.3	17.8
Financial assets	43.2	16.5
Historic insurance industry liability claims		
Insurance liabilities	2.3	9.9
Financial assets	2.6	9.2

Market Risk - Sensitivity analysis
Based on the Internal Model, the most significant aspect of market risk to which Co-op Insurance is exposed is the effect of changes in credit-spreads on corporate bonds. The resulting movements in the market values of corporate bonds directly affect Co-op Insurance's solvency. As Co-op Insurance 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 no impact on reported IFRS profits.

An increase of 100 basis points in credit-spreads would reduce the value of Co-op Insurance's assets at the end of the financial year by £14.8m (2015: £12.9m). This would reduce Co-op Insurance's solvency (on all bases) by £12.2m net of tax (2015: £10.7m), although it is likely that the overall net impact on solvency would be lower than this as the fall would be partially offset by a reduction in the value of liabilities arising from the use of the Volatility Adjustment to value claims provisions. The impact of a decrease of 100 basis points in credit-spreads would have similar but opposite effects.

Operational risk
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. Co-op Insurance'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 and technology or due to external events.

Co-op Insurance 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 RFO and is supported by underlying control standards:

- Financial Reporting Risk
- Model Risk
- Technology Risk (including Cyber Risk)
- Physical Assets and Physical Security
- Third Party Supplier Risk
- Change Risk
- Product Governance Risk
- Information Risk
- Financial Crime Risk
- People Risk
- Legal Risk
- Business Continuity Risk
- Anti-Money Laundering (AML) and Counter Terrorist Financing Risk (CTF)

Operational risks are identified, managed and mitigated through on-going risk management practices including risk assessments, formal control procedures and contingency planning. Operational risks and key controls are regularly reviewed by individual Executive Leadership Team meetings and various risk forums. Significant operational risks are reported to the ERC, BRC and Board.

During 2016 a new Work Area Recovery (WAR) contract took effect, which provided Co-op Insurance with improved WAR resources. A series of exercises during the first half of the year provided the business with comfort as to the recoverability of the businesses systems. The current IT estate is old and complex with inherent risks including limitations in stability, speed of change and data management. Separation activity continued with the systems shared with the Co-operative Bank to leave only a small number of dependencies in a limited number of IT services. Whilst improvements in control of this estate have been made during 2016, the improvements in risk and control will be effected by the replacement of key components of IT infrastructure.

Desktop, network and telephony services will continue to be sourced from within Group, alongside the IT systems replacement. All these developments raise the risk arising from change to the existing systems and operations. Consequently, Change Assessment and Change Authorisation forums were created to ensure all change is robustly managed and prioritised.

The nature of change for such a major development requires investment and financial commitments which will enable significant improved business capability and efficiency. There is a risk that the development does not deliver and stress testing of appropriate contingency plans to ensure sufficient capital is available to manage the business in such extreme circumstances has been undertaken.

All amounts are stated in £m unless otherwise indicated

2. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Operational risk (continued)

Co-op Insurance has a corporate insurance programme to transfer specific risks to insurers as part of its risk management approach which includes; property and business interruption, financial crime, employer's liability and Directors and officers.

In addition, Co-op Insurance have taken out Cyber Insurance (Forensic & Investigation costs, Business Interruption, Cyber Theft, Cyber Extortion, Telephone Hacking, PR expenses and Notification expenses).

People risk

People risk is the risk associated with the recruitment, employment and management of individuals within Co-op Insurance. Co-op Insurance has no appetite for breaches of employment law, regulations or contracts of employment and closely monitors the people risks that have the biggest impact on achieving Co-op Insurance's strategy.

During 2016, Group-wide 'Back to being Co-op' and 'Being a Co-op Leader' interactive sessions were held across all the Group businesses and attended by Co-op Insurance staff. Customer centric incentive schemes which measured individuals by recognising good customer service and outcomes have been developed in the operational area. During this period of significant transformation there is an increased risk around the ability to attract and retain staff with the key skills critical to develop the business and to deliver the programme.

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. Co-op Insurance'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 Co-op Insurance's Internal Model.

The latest model assesses the ultimate cost of a 1-in-100 year UK windstorm as £104.3m (2015: £105.6m), giving a minimum requirement for £20.9m (2015: £21.1m) of liquid assets against actual liquid assets of £773.1m (2015: £734.0m).

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 BRC and Board. This includes monthly reporting of liquid assets against risk appetite limits including forecasts for 2017 to ensure cost of transformation is also available.

All amounts are stated in £m unless otherwise indicated

2. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Liquidity risk (continued)

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 statement of financial position). Included in the analysis of insurance contract liabilities below is £44.6m (2015: £43.5m) of discounted reserves relating to PPO's and historic liability claims from the electric industry. Further details are included in note 22.

	Carrying value	**Gross nominal out flow**	**Up to 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**
As at 31 December 2016								
Insurance contract liabilities	**488.0**	**488.0**	**197.8**	**102.0**	**58.3**	**36.9**	**22.9**	**70.1**
Financial liabilities at amortised cost:								
Subordinated debt	**67.7**	**141.4**	**8.4**	**8.4**	**8.4**	**8.4**	**8.4**	**99.4**
Reinsurance liabilities	**6.6**	**6.6**	**6.6**	**-**	**-**	**-**	**-**	**-**
Insurance and other payables	**73.1**	**73.1**	**73.1**	**-**	**-**	**-**	**-**	**-**
Cash and cash equivalents	**5.8**	**5.8**	**5.8**	**-**	**-**	**-**	**-**	**-**
	641.2	**714.9**	**291.7**	**110.4**	**66.7**	**45.3**	**31.3**	**169.5**
Other liabilities	**7.0**							
Total recognised liabilities	**648.2**							

	Carrying value	Gross nominal out flow	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
As at 31 December 2015								
Insurance contract liabilities	525.2	525.2	212.2	115.2	64.1	37.8	22.7	73.2
Financial liabilities at amortised cost:								
Subordinated debt	67.7	149.8	8.4	8.4	8.4	8.4	8.4	107.8
Reinsurance liabilities	7.4	7.4	7.4	-	-	-	-	-
Insurance and other payables	67.1	67.1	67.1	-	-	-	-	-
Cash and cash equivalents	3.6	3.6	3.6	-	-	-	-	-
	671.0	753.1	298.7	123.6	72.5	46.2	31.1	181.0
Other liabilities	5.0							
Total recognised liabilities	676.0							

Credit risk

Credit risk is the risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations. Co-op Insurance 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.

Co-op Insurance's key credit risk exposure is from the default or delay in respect of insurance receivables. This could arise from the following:

- Reinsurance counterparties failing to meet financial obligations or entering into restructuring arrangements that may adversely affect reinsurance recoveries;
- Default or delay of repayment of loans and receivables; and
- Insurance counterparties failing to meet financial obligations.

Co-op Insurance manages credit risks associated with cash and corporate bonds as part of market risk. See market risk section on page 37 to 38 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. Co-op Insurance 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 the credit quality of a reinsurer, a review will be undertaken to determine the most appropriate management action.

Insurance receivable and other assets are primarily premium debtors due from customers and insurance intermediaries. Exposure to insurance intermediaries is managed in line with Co-op Insurance Credit risk policy.

Co-op Insurance has a credit exposure of up to £60m with a trading counterparty that provides administrative services including the collection of premiums. This exposure to credit risk was reduced during 2016 and is expected to fall further during 2017.

All amounts are stated in £m unless otherwise indicated

2. Risk Management and Capital Management (continued)
i) Risk Management (continued)

Credit risk (continued)
The table below provides an analysis at the statement of financial position date of the credit rating of those assets subject to credit risk. Co-op Insurance policy for making provisions for possible impairment is described within the accounting policy section on page 28. Credit ratings are determined by using the Markit iBoxx Rating methodology.

	AAA	**AA**	**A**	**BBB and below**	**Not rated**	**Total**
As at 31 December 2016						
Financial assets at fair value through income or expense:						
Deposits with approved credit institutions (fixed rate)	**-**	**-**	**225.9**	**-**	**-**	**225.9**
Available for sale assets:						
Listed debt (fixed rate)	**101.4**	**329.7**	**130.9**	**-**	**-**	**562.0**
Listed debt (variable rate)	**16.2**	**27.5**	**77.1**	**4.9**	**-**	**125.7**
Reinsurance assets	**-**	**26.4**	**25.7**	**-**	**1.4**	**53.5**
Insurance receivables and other assets	**2.1**	**2.8**	**3.6**	**-**	**151.9**	**160.4**
	119.7	**386.4**	**463.2**	**4.9**	**153.3**	**1,127.5**
Salvage and subrogation						**23.3**
Assets not subject to credit risk						**47.4**
						1,198.2

	AAA	AA	A	BBB and below	Not rated	Total
As at 31 December 2015						
Financial assets at fair value through income or expense:						
Deposits with approved credit institutions (fixed rate)	-	-	199.1	-	-	199.1
Available for sale assets:						
Listed debt (fixed rate)	93.7	321.0	147.9	-	-	562.6
Listed debt (variable rate)	10.1	17.2	85.8	16.3	-	129.4
Reinsurance assets		29.3	36.9		2.3	68.5
Insurance receivables and other assets	2.1	2.4	3.8	0.1	183.9	192.3
	105.9	369.9	473.5	16.4	186.2	1,151.9
Salvage and subrogation						27.5
Assets not subject to credit risk						40.2
						1,219.6

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 £177.2m (2015: £191.0m) is held against short term deposits which have been placed into a reverse repo transaction of £175.0m as at 31 December 2016 (2015: £199.1m). On 31 December 2016, an additional £25.9m was placed on deposit, this balance was 100% covered by collateral received in the form of gilts. These short term deposits sit with approved credit institutions within financial investments at fair value through income or expense on the statement of financial position.

Eurozone risk
Co-op Insurance has no direct exposure to the sovereign debt of European countries and exposure to European countries arising from corporate bonds as shown in the following table. Co-op Insurance has no exposures to European countries as a result of repo arrangements.

All amounts are stated in £m unless otherwise indicated

2. Risk Management and Capital Management (continued)

i) Risk Management (continued)

The following table shows exposure to European countries arising from corporate bonds.

	Up to 1 year	**1 to 5 years**	**5 to 10 years**	**Total**
As at 31 December 2016				
Finland	**-**	**-**	**3.7**	**3.7**
Germany	**-**	**27.8**	**-**	**27.8**
Netherlands	**-**	**26.0**	**-**	**26.0**
Norway	**-**	**3.4**	**-**	**3.4**
Sweden	**20.3**	**27.0**	**4.3**	**51.6**
Switzerland	**-**	**5.6**	**-**	**5.6**
	20.3	**89.8**	**8.0**	**118.1**

	Up to 1 year	1 to 5 years	5 to 10 years	Total
As at 31 December 2015				
France	7.0	-	-	7.0
Germany	-	30.0	-	30.0
Netherlands	-	22.6	-	22.6
Spain	-	16.3	-	16.3
Sweden	3.0	66.7	-	69.7
	10.0	135.6	0.0	145.6

Pension risk

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

While Co-op Insurance is not a participating employer, it has an agreement to pay pension contributions relating to staff employed by CFSMS, a wholly owned subsidiary of the Co-operative Group, that are assigned to work for Co-op Insurance. This means that Co-op Insurance 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. Co-op Insurance contributed £1.9m in 2016 (2015: £1.9m) which amounts to an agreed rate of 7.5% of the pension deficit funding plan.

The Co-operative Bank is a participating employer of the PACE scheme and following the announcement of their intention to seek a sale of the business, is in active negotiations with The Co-operative Group regarding separation of pension obligations. This focuses the attention on the Co-op Insurance pension risk and as a result developments are being closely monitored.

The PACE scheme is treated as a defined contribution scheme and Co-op Insurance is exposed to potential future increases in required contributions. The impact is assessed under Co-op Insurance's Risk Management Framework and Internal Model and capital requirements also allow for this. As the scheme is closed to future accruals the costs arise through deficit repair contributions, expenses and potential employer debt, under Section 75 of the Pensions Act. Co-op Insurance 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 2016, the volatility in markets especially credit spreads has impacted the valuation of the Pension Scheme. The scheme has remained in surplus on the IAS19 basis; however, the economic outlook remains largely uncertain due to continuation of low interest rates and credit spreads volatility which will continue to impact Pensions and Technical Provisions. The Pension Trustee is currently reviewing the investment strategy and the Co-op Insurance Chief Actuary has joined the Group Pension Strategy Committee to assist with these considerations.

Group risk

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 previous sections. Co-op Insurance currently receives operational resources and certain services from Co-operative Group and CFSMS, a wholly owned subsidiary of the Co-operative Group. Co-op Insurance is therefore subject to third party supplier risk of managing CFSMS and Co-operative Group as intergroup suppliers. Co-op Insurance ensures clear identification of Group risks and actively engages with the Co-operative Group to ensure that Group risks are appropriately managed in a robust control environment.

During 2016, Co-op Insurance has engaged with Co-operative Group to ensure a consistent approach to Health & Safety across the businesses. The roll-out of a Co-operative Group Enterprise Risk Framework across non-regulated businesses is being implemented which will help support the control of Group Services to Co-op Insurance.

Co-op Insurance still maintains a relationship with The Co-operative Bank, who provide day to day commercial banking services.

2. Risk Management and Capital Management (continued)

ii) Capital Management

Objectives when managing capital

Co-op Insurance's 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 additional capital above the regulatory requirements ("SCR coverage") to make any breach of the regulatory requirement unlikely, ensuring that policyholders are protected and also that the Board's risk appetite is met
- Subject to the above objectives being met, it makes the required return on equity

Required capital

Under the Solvency II regulatory framework, the Prudential Regulation Authority (PRA) requires Co-op Insurance to calculate a capital requirement and to hold sufficient capital to meet it.

(a) Regulatory required capital

The Solvency II regulatory regime came into force as at 1 January 2016. Under this solvency framework, Co-op Insurance is required to hold capital at the greater of two measures, namely the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR). These measures are described below.

i) SCR: The SCR is a risk-responsive capital measure, calibrated to ensure that an insurer will be able to meet its obligations over the next 12 months with a probability of at least 99.5%. Co-op Insurance currently calculates its SCR using the Standard Formula (SF). The Standard Formula is calibrated based on market wide data and not on a specific firm's data, so the PRA must approve the SF SCR as being appropriate for a particular firm. Co-op Insurance has identified the need to hold further capital in addition to the basic SF SCR, in respect of additional operational risks including Transformation. Co-op Insurance calculated the additional capital that would be required to cover this risk and requested an add on to the SCR, which was been approved by the PRA.

   Co-op Insurance is actively progressing with activities to meet the required standards to apply to the PRA for approval to use Co-op Insurance's Internal Model to calculate the SCR. Outputs from the internal model and from the SF SCR calculation are used in areas of the wider business 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) MCR: The calculation of the MCR is prescribed under the Solvency II guidance and is set at a lower level than the SCR. Initially, the MCR is calculated by applying set factors to net technical provisions and the previous 12 months' net written premiums and is then subject to a cap of 45% and a floor of 25% of the SCR.

(b) Internal required capital

Co-op Insurance Board sets capital risk appetite, which defines how much additional capital ("SCR coverage") Co-op Insurance should hold over and above its most onerous regulatory capital requirement. The risk appetite at end-2016 is to aim to have at least 130% SCR coverage, and to target 140% SCR coverage. The risk appetite is reviewed periodically and was most recently approved at end-2016.

Co-op Insurance has maintained capital above all its regulatory requirements throughout 2016. It has also maintained sufficient capital to exceed the Board risk appetite that was in force over 2016. Co-op Insurance reviews solvency continuously through weekly, or when appropriate daily, monitoring. Monthly reports are provided to the Capital, Liquidity, Investments and Pensions Committee and Board.

In the event that Co-op Insurance falls below its risk appetite, it would be 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 the purchase of reinsurance;
- Actions to reduce other types of risk – for example, de-risking the investment portfolio; and
- Actions to increase available capital – for example, through possible issuance of additional subordinated debt and/or extension to the current quota share arrangement.

Potential actions are routinely assessed at least once a year so that contingent management actions are available.

Under the Solvency II regime, whilst the SF SCR determines the regulatory required capital, Co-op Insurance also calculates its own view of risk called the Economic Capital Requirement (ECR), also known as the Ultimate SCR (USCR). This is calculated in the Internal Model on an economic basis. This view of risk considers, amongst other things, the full run off of risks, rather than just the risks over the next 12 months.

(c) Capital composition

The policies and processes employed by Co-op Insurance are designed to benefit policyholder protection by giving the business an accurate understanding of the amount and quality of capital and resources. This helps the business ensure that sufficient capital is held to absorb unexpected losses and maintain solvency.

Under the Solvency II regime capital resources are referred to as own funds. Own funds correspond to capital and reserves which can serve as a buffer against risks and absorb financial losses. Each type of own funds is classified within a tier, with tier 1 being the highest quality capital.

2. Risk Management and Capital Management (continued)

ii) Capital Management (continued)

(c) Capital composition (continued)

All of Co-op Insurance's excess of assets over liabilities, which comprise share capital and retained profits calculated on a Solvency II basis, is classified as tier 1 capital. In addition, the subordinated debt held by the business serves as tier 2 capital and deferred tax assets are classified as tier 3 capital.

100% of own funds held at the end of the reporting period were eligible to meet the SCR, whilst in line with Solvency II regulations, 100% of tier 1 capital, 20% of tier 2 capital and 0% of tier 3 capital are eligible to meet the MCR.

Co-op Insurance holds no ancillary own-funds, which are potential loss-absorbing items such as unpaid share capital or letters of credit, and would require prior supervisory approval to be recognised under Solvency II.

Further information, including an explanation of the valuation of assets and liabilities on a Solvency II basis, will be available in the Co-op Insurance Solvency & Financial Condition Report when published in May 2017.

All amounts are stated in £m unless otherwise indicated

3. Net earned premiums

	2016	2015
Gross premiums		
Gross written premiums	**480.9**	424.3
Change in unearned premium provision	**(14.4)**	(48.5)
Gross earned premiums	**466.5**	375.8
Outward reinsurance premiums		
Premiums ceded	**(27.2)**	(30.5)
Change in unearned premium provision	**(0.3)**	(0.1)
Premiums ceded to reinsurers	**(27.5)**	(30.6)
Net earned premiums	**439.0**	345.2

4. Fee and commission income

	2016	2015
Fee income	**11.1**	8.6
Reinsurance commission earned	**0.5**	1.3
Other commission	**1.4**	1.3
	13.0	11.2

Fee income is in respect of policy administration fees and commission from third party commercial arrangements.

Other commission is in respect of ancilliary income from aggregator business.

5. Investment income

	2016	2015
Interest and similar income from assets held at fair value through income or expense:		
Deposits with credit institutions	**0.7**	0.8
	0.7	0.8
Interest income (calculated using Effective Interest Rate) from available for sale assets:		
Listed debt securities	**12.3**	14.5
	13.0	15.3

6. Gains less losses arising from financial instruments

	2016	2015
Net gains arising on financial assets:		
Available for sale listed debt securities	**1.4**	2.9
	1.4	2.9

All amounts are stated in £m unless otherwise indicated

7. Net policyholder claims and benefits paid

	2016	2015
Gross claims paid		
Current year claims	**164.6**	125.5
Prior year claims	**182.9**	192.3
Gross claims paid	**347.5**	317.8
Less salvage and subrogation		
Current year claims	**(13.2)**	(9.2)
Prior year claims	**(13.3)**	(16.2)
Salvage and subrogation received	**(26.5)**	(25.4)
Claims paid	**321.0**	292.4
Less amounts receivable from reinsurers		
Current year claims	**(2.3)**	(3.4)
Prior year claims	**(6.4)**	(2.6)
Amounts receivable from reinsurers	**(8.7)**	(6.0)
Net policyholder claims and benefits paid	**312.3**	286.4

8. Fee and commission expenses

	2016	2015
Commission paid	**28.0**	24.4
Change in deferred commission	**(0.9)**	(4.6)
	27.1	19.8

9. Operating expenses

	2016	2015
Other acquisition expenses	**35.9**	28.4
Administration expenses	**98.3**	95.4
Costs in respect of Transformation Programme	**28.8**	47.4
Operating Expenses	**163.0**	171.2

Co-op Insurance does not have any employees; all sales are effected by employees of CFS Management Services Limited (CFSMS) which also provides some administration and other services. CFSMS is also responsible for the remuneration of all directors of the Co-op Insurance. Co-op Insurance incurs a management service charge from CFSMS, at cost. Key management compensation is discussed in note 29.

Included within the administration expenses is £5.5m (2015: £5.8m) paid by Co-op Insurance in respect of regular pension contributions, which includes £1.9m (2015: £1.9m) 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.

The Trustee formally reviews the pension funding position every three years and, where there is a deficit, agrees a funding recovery plan with the Group. Group determines the proportion of the deficit recovery contributions required by each participating employer. It currently does this using an approximate estimate of each employer's share of the PACE Scheme liabilities. This is not a defined or agreed policy.

Co-op Insurance is not a participating employer in PACE. CFSMS is the participating employer and Co-op Insurance has an agreement with CFSMS to pay any amounts allocated to CFSMS which are in respect of current or past employees of CFSMS who were or are assigned to work for Co-op Insurance. Further details of the Pension Schemes are available in the Co-operative Group annual return.

9. Operating expenses (continued)

	2016 £'000	2015 £'000
Audit of these financial statements	**379**	163
Amounts receivable by Co-op Insurance's auditor and its associates in respect of:		
Audit-related assurance services	**22**	194
Other assurance services	**192**	124
	593	481

In 2016 upon the recommendation of the Group Risk and Audit Committee, Ernst & Young LLP were appointed as auditors at the Group AGM on 21 May 2016.

2016 other assurance services relate to assurance provided on Co-op Insurance's preparations for Solvency II. Audit-related assurance services is the Interim Audit by Ernst & Young LLP.

2015 audit-related assurance services are in respect of the audit of regulatory returns, audit of the 2014 Solvency II statement of financial position and half year review of interim financial information for consolidation into the Interim Report for the Co-operative Group. Other assurance services relate to assurance provided on Co-op Insurance's preparations for Solvency II and assurance reporting on Co-op Insurance's financial information included within the prospectus for the issuance of loan notes during 2015.

10. Segmental analysis

Co-op Insurance evaluates the performance of business segments on a number of metrics, of which the combined operating ratio has primary focus, being the ratio of combined costs (operating expenses, claims and commission, net of other income) to net earned premiums. Overall Co-op Insurance 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 business segments in which they are generated.

Segmental results include items directly attributable to a business 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

Co-op Insurance 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 and finance costs.

Segmented income statement for the year ended 31 December 2016

	Motor	Home	Other	Total
Net earned premiums	**322.0**	**116.8**	**0.2**	**439.0**
Net claims incurred	**(258.8)**	**(44.3)**	**9.2**	**(293.9)**
Net fee and commission (expenses)/income	**(8.1)**	**(8.2)**	**2.2**	**(14.1)**
Operating expenses	**(91.0)**	**(41.2)**	**(0.9)**	**(133.1)**
Net investment return	**11.0**	**1.8**	**0.5**	**13.3**
Other expenses	**(26.1)**	**(10.9)**	**(0.4)**	**(37.4)**
Segmented operating (loss)/profit	**(51.0)**	**14.0**	**10.8**	**(26.2)**
In force policy count (Individual policies held)	**836,939**	**578,837**	**-**	**1,415,776**

All amounts are stated in £m unless otherwise indicated

10. Segmental analysis (continued)

Segmented income statement for the year ended 31 December 2015

	Motor	Home	Other	Total
Net earned premiums	220.3	124.3	0.6	345.2
Net claims incurred	(168.3)	(69.3)	(6.5)	(244.1)
Net fee and commission (expenses)/income	(3.1)	(7.3)	1.8	(8.6)
Operating expenses	(76.2)	(45.5)	(1.0)	(122.7)
Net investment return	13.9	2.4	0.8	17.1
Other expenses	(28.4)	(24.3)	(0.3)	(53.0)
Segmented operating (loss)	(41.8)	(19.7)	(4.6)	(66.1)
In force policy count (Individual policies held)	771,273	654,774	-	1,426,047

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.

	2016	2015
Commission expenses		
Net fee and commission expense from segmented income statement	**(14.1)**	(8.6)
Reclassified Fee and commission income per income statement	**(13.0)**	(11.2)
Fee and commission expenses within income statment	**(27.1)**	(19.8)
Segmental income statement operating expenses		
Total operating expenses from segmented income statement	**(133.1)**	(122.7)
Reclassification of investment expenses	**(1.1)**	(1.1)
Other acquisition and administration expenses within income statement	**(134.2)**	(123.8)
Investment return		
Net investment return from segmented income statement	**13.3**	17.1
Reclassification of investment expenses to operating expenses	**1.1**	1.1
Analysed as below in the income statement	**14.4**	18.2
Investment income within income statement	**13.0**	15.3
Gains less losses arising from financial instruments per income statement	**1.4**	2.9
Income Statement	**14.4**	18.2
Other expenses for segmented income statement is made up of:		
Costs in respect of Transformation Programme	**(28.8)**	(47.4)
Finance costs	**(8.6)**	(5.6)
	(37.4)	(53.0)

All amounts are stated in £m unless otherwise indicated

11. Income tax

	2016	2015
Current tax		
UK tax credit for the current year	**4.1**	7.7
UK tax adjustments in respect of prior years	**(0.1)**	6.0
Adjustment to amount owed to Bank plc re historic Group Relief	**0.2**	-
Total current tax credit	**4.2**	13.7
Deferred tax		
Origination and reversal of temporary differences	**0.9**	0.6
Effect of tax rate change	**0.3**	-
Adjustments in respect of prior years	**0.1**	-
Total deferred tax credit	**1.3**	0.6
Total tax credit/(charge) recognised in the income statement	**5.5**	14.3

Further information about deferred tax is presented in note 23.

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:

	2016	2015
Loss before taxation	**(26.2)**	(66.1)
Tax calculated at domestic corporation tax rate of 20% (2015: 20.25%)	**5.2**	13.4
Effect of:		
Expenses not deductible for tax (including significant items)	**(0.1)**	(0.1)
Depreciation and amortisation in excess of capital allowances	**-**	(0.1)
Adjustment to amount owed to Bank plc re historic Group Relief	**0.2**	-
Adjustment in respect of prior years	**-**	6.0
Movement in claims equalisation reserve	**-**	0.2
Tax losses arising in the year and carried back to be utilised against prior year profits	**-**	(5.5)
Revision of deferred tax to 17.58% (2015: 18.75%)	**0.3**	0.4
Change in tax rate	**(0.1)**	-
Income tax credit/(charge)	**5.5**	14.3

All amounts are stated in £m unless otherwise indicated

12. Property, plant and equipment

2016	**Fixtures & Fittings**	**Assets in course of constuction**	**Total**
Cost			
At the beginning of the financial year	**1.0**	**0.1**	**1.1**
Additions	**0.1**	**-**	**0.1**
Disposals	**(0.2)**	**-**	**(0.2)**
At the end of the financial year	**0.9**	**0.1**	**1.0**
Depreciation			
At the beginning of the financial year	**0.3**	**-**	**0.3**
Depreciation charge for the financial year	**0.1**	**-**	**0.1**
Disposals	**(0.2)**	**-**	**(0.2)**
At the end of the financial year	**0.2**	**-**	**0.2**
Carrying amount			
At the end of the financial year	**0.7**	**0.1**	**0.8**
At the beginning of the financial year	**0.7**	**0.1**	**0.8**

2015	Fixtures & Fittings	Assets in course of constuction	Total
Cost			
At the beginning of the financial year	0.3	0.1	0.4
Additions	0.7	-	0.7
At the end of the financial year	1.0	0.1	1.1
Depreciation			
At the beginning of the financial year	0.2	-	0.2
Depreciation charge for the financial year	0.1	-	0.1
At the end of the financial year	0.3	-	0.3
Carrying amount			
At the end of the financial year	0.7	0.1	0.8
At the beginning of the financial year	0.1	0.1	0.2

All amounts are stated in £m unless otherwise indicated

13. Intangible Assets

2016	Computer Software	Assets in course of construction	Total
Cost			
At the beginning of the financial year	**0.1**	**1.6**	**1.7**
Additions	**-**	**-**	**-**
Disposals	**-**	**-**	**-**
At the end of the financial year	**0.1**	**1.6**	**1.7**
Amortisation			
At the beginning of the financial year	**-**	**-**	**-**
Amortisation charge for the financial year	**0.1**	**-**	**0.1**
At the end of the financial year	**0.1**	**-**	**0.1**
Carrying amount			
At the end of the financial year	**-**	**1.6**	**1.6**
At the beginning of the financial year	**0.1**	**1.6**	**1.7**

2015	Computer Software	Assets in course of construction	Total
Cost			
At the beginning of the financial year	0.1	1.5	1.6
Additions	-	0.1	0.1
At the end of the financial year	0.1	1.6	1.7
Amortisation			
At the beginning of the financial year	-	-	-
Amortisation charge for the financial year	-	-	-
At the end of the financial year	-	-	-
Carrying amount			
At the end of the financial year	0.1	1.6	1.7
At the beginning of the financial year	0.1	1.5	1.6

14. Deferred acquisition costs

	2016	2015
At the beginning of the financial year	**28.1**	20.2
Deferred acquisition costs	**63.3**	54.7
Amortisation	**(60.7)**	(46.8)
At the end of the financial year	**30.7**	28.1

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

All amounts are stated in £m unless otherwise indicated

15. Financial investments at fair value through income or expense

	2016	2015
Deposits with credit institutions	**225.9**	199.1

All amounts in the current and prior year are expected to be recovered within one year. Within the above are secured deposits of £200.9m (2015: £199.1m). Collateral of £203.1m, in the form of gilts is held against these deposits. Please see the credit risk note on pages 40 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.

16. Available for sale assets

	2016	2015
Listed debt securities - fixed rate	**562.0**	562.6
Listed debt securities - floating rate	**125.7**	129.4
	687.7	692.0

At 31 December 2016, debt securities of £534.7m (2015: £650.0m) are expected to be recovered more than 12 months after the reporting date.

17. Insurance receivables and other assets

	2016	2015
Receivables arising from insurance:		
Arising from insurance operations	**149.0**	179.9
Salvage and subrogation recoveries	**23.3**	27.5
Reinsurance ceded	**0.4**	1.0
Other receivables:		
Accrued interest	**9.0**	9.2
Amounts receivable from Group companies	**0.1**	0.2
Prepayments	**1.2**	1.7
Other receivables	**0.7**	0.3
	183.7	219.8

No amounts are due after more than one year.

The receivables arising from insurance operations has decreased from £179.9m to £149.0m. A significant proportion of this relates to a commercial agreement with Co-op Insurance's main intermediary. This permits premiums received and receivable from customers to be receipted on a monthly basis over 12 months. During 2016, an amendment to the commercial arrangement was agreed to cap the level of outstanding receivables. This resulted in a receipt which has reduced the outstanding receivables balance. The main intermediary is solvent and profitable but unrated. Management continue to monitor the outstanding balance and currently accept the resulting credit risk.

Receivables arising from insurance operations are stated net of an impairment provision of £0.5m (2015: £0.4m). 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 £24.6m (2015: £26.7m) which are due and overdue; amounts due and overdue but not impaired are £24.1m (2015: £26.3m), being the due and overdue amount net of the impairment provision detailed above. Amounts due and overdue are age analysed as follows:

	2016	2015
Amounts due and overdue:		
Less than 3 months	**24.3**	26.7
3 to 6 months	**0.3**	-
More than 6 months	**-**	-

Assets past due typically comprise high volume/low value balances for which Co-op Insurance does not seek collateral but continues to work with counterparties to secure settlement. Amounts less than 3 months will include both due and overdue balances.

All amounts are stated in £m unless otherwise indicated

18. Cash and cash equivalents

	2016	2015
Cash and cash equivalents	**5.8**	3.6
	5.8	3.6

This balance is included as cash and cash equivalents for the purpose of the statement of cash flows. The credit balance represents the net position across the company's various bank accounts.

19. Share capital

	2016	2015
Authorised	**268.0**	268.0
Issued and fully paid		
268,000,000 ordinary shares of £1 each	**268.0**	268.0

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.

20. Retained earnings and other reserves

	2016	2015
Retained earnings		
At the beginning of the financial year	**(8.8)**	43.0
Loss for the financial year	**(20.7)**	(51.8)
At the end of the financial year	**(29.5)**	(8.8)

	2016	2015
Other reserves		
Available for Sale	**19.0**	6.3
Capital Reserves	**57.1**	57.1
	76.1	63.4

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

The capital reserve represents a non-refundable capital contribution from the former parent company, the Co-operative Banking Group Limited, and is distributable.

21. Borrowed funds

	2016	2015
Callable dated deferrable tier two notes	**67.7**	67.7
	67.7	67.7

On 8th May 2015, CIS General Insurance Ltd issued £70m of Callable Dated Deferrable Tier Two Notes due 2025 at par, charged at 12% interest.

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 £8.6m (2015: £5.6m) in relation to interest on the subordinated debt.

All amounts are stated in £m unless otherwise indicated

22. Insurance contract liabilities and reinsurance assets

(a) Analysis of insurance contract liabilities

	2016	2015
Gross		
Claims reported	**348.9**	358.3
Claims incurred but not reported	**127.9**	153.2
Claims settlement expenses	**11.3**	13.0
Unearned premiums	**235.3**	220.9
Unexpired risk provision	**-**	0.8
Total gross insurance liabilities	**723.4**	746.2
Recoverable from reinsurers		
Claims reported	**(28.7)**	(30.8)
Claims incurred but not reported	**(24.8)**	(37.4)
Unearned premiums	**-**	(0.3)
Total reinsurers' share of insurance liabilities	**(53.5)**	(68.5)
Net		
Claims reported	**320.2**	327.5
Claims incurred but not reported	**103.1**	115.8
Claims settlement expenses	**11.3**	13.0
Unearned premiums	**235.3**	220.6
Unexpired risk provision	**-**	0.8
Total net insurance liabilities	**669.9**	677.7

Reinsurance is used to limit risk to the statement of financial position for the various classes of general insurance 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.

Post reporting period adjustment

After the statement of financial position date of 31 December 2016, the Lord Chancellor announced a change in the Ogden discount rate. The Ogden discount rate is used to calculate bodily injury claims. The rate is fixed by the Lord Chancellor and on the 27 February 2017 it was changed to -0.75% from 2.5%. The change has been reflected in these accounts.

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

i) Basis of assessing liabilities

Co-op Insurance has access to historical data and trends relating to the general insurance business of Co-op Insurance Society Ltd (CISL) for which it has now assumed responsibility.

Co-op Insurance 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.

22. Insurance contract liabilities and reinsurance assets (continued)

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

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

The chain ladder method can be 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.

Discounted reserves in respect of periodic payment settlements are £22.3m (2015: £23.2m) and historic liability claims from the electric industry discounted reserve amounts to £3.0m (2015: £2.9m). Further details around expected settlement patterns for claims arising on these reserves are disclosed within the market risk section on pages 37 to 38.

The historic liability claims from the electric industry reserve was based on a report produced for the industry at the end of 2015 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 2015. This was the most recent report available when Co-op Insurance calculated its year end 2016 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 2016 Co-op Insurance held an URP of Nil (2015: £0.8m).

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, a management margin is added to the 'actuarial best estimate' so that no adverse run-off deviations are envisaged. 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 Co-op Insurance'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 Chief Actuary in consultation with 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 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 13th edition of the Judicial College 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

22. Insurance contract liabilities and reinsurance assets (continued)

(b) 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 £282.1m (2015: £349.1m) includes a release of reserves of £59.3m (2015: £12.9m). This movement is as a result of the favourable development in Motor large bodily injury claims and legacy employers' liability releases, reported as Fire and Accident in the table below:

	Gross 2016	**Net 2016**	Gross 2015	Net 2015
Fire and Accident decrease/(increase) of reserves	**18.6**	**12.6**	(5.5)	(7.5)
Motor release of reserves	**43.8**	**38.1**	23.6	10.8
(Increase) in claims handling reserves	**(3.1)**	**(3.1)**	(5.2)	(5.2)
Movement in insurance liabilities	**59.3**	**47.6**	12.9	(1.9)

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.

2016	**Change in parameter**	**Effect on gross provision**	**% Effect**
Assumption			
Motor			
Average cost of claims for last three years - bodily injury and legal	**+10%**	**30.9**	**8.4%**
Mean term to settlement - bodily injury and legal	**+½ year**	**7.8**	**2.1%**
Rate of future inflation - bodily injury and legal	**+1%**	**10.7**	**2.9%**
Ogden discount rate - bodily injury	**+¼%**	**(2.1)**	**(0.6%)**
Other classes			
Mean term to settlement (liability)	**+½ year**	**0.3**	**1.9%**
Mean term to settlement (non-liability)	**+½ year**	**0.6**	**1.6%**
Rate of future inflation (liability)	**+1%**	**1.1**	**7.3%**
Rate of future inflation (non-liability)	**+1%**	**0.5**	**1.4%**

2015	Change in parameter	Effect on gross provision	% Effect
Assumption			
Motor			
Average cost of claims for last three years - bodily injury and legal	+10%	32.3	8.9%
Mean term to settlement - bodily injury and legal	+½ year	7.2	2.0%
Rate of future inflation - bodily injury and legal	+1%	11.0	3.0%
Ogden discount rate - bodily injury	-¼%	2.2	0.6%
Other classes			
Mean term to settlement (liability)	+½ year	0.5	2.1%
Mean term to settlement (non-liability)	+½ year	0.9	1.5%
Rate of future inflation (liability)	+1%	1.4	5.5%
Rate of future inflation (non-liability)	+1%	0.9	1.4%

(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**
2016				
At the beginning of the financial year	**524.6**	**0.8**	**(27.5)**	**497.9**
Movement in the financial year	**(36.5)**	**(0.8)**	**4.2**	**(33.1)**
At the end of the financial year	**488.1**	**-**	**(23.3)**	**464.8**

All amounts are stated in £m unless otherwise indicated

22. Insurance contract liabilities and reinsurance assets (continued)

(c) Change in general insurance liabilities and reinsurance assets (continued)

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

	Gross	Unexpired risk provision	Salvage & subrogation	Net
2015				
At the beginning of the financial year	554.5	10.8	(21.8)	543.5
Movement in the financial year	(29.9)	(10.0)	(5.7)	(45.6)
At the end of the financial year	524.6	0.8	(27.5)	497.9

Salvage and subrogation is included within assets as part of insurance receivables (note 17).

ii) Claims and loss adjustment expenses

	Gross 2016	Reinsurance 2016	Net 2016	Gross 2015	Reinsurance 2015	Net 2015
Claims reported	**358.3**	**(30.8)**	**327.5**	406.7	(39.2)	367.5
Claims incurred but not reported	**153.3**	**(37.4)**	**115.9**	135.2	(32.4)	102.8
Claims settlement expenses	**13.0**	**-**	**13.0**	12.6	-	12.6
At the beginning of the financial year	**524.6**	**(68.2)**	**456.4**	554.5	(71.6)	482.9
Claims paid during the year	**(347.5)**	**8.7**	**(338.8)**	(317.8)	6.0	(311.8)
Increase/(decrease) in liabilities:						
Arising from current year claims	**370.3**	**(5.7)**	**364.6**	300.8	(17.5)	283.3
Arising from prior year claims	**(59.3)**	**11.7**	**(47.6)**	(12.9)	14.8	1.9
Total movement	**(36.5)**	**14.7**	**(21.8)**	(29.9)	3.3	(26.6)
Claims reported	**348.9**	**(28.7)**	**320.2**	358.3	(30.8)	327.5
Claims incurred but not reported	**127.9**	**(24.8)**	**103.1**	153.3	(37.4)	115.9
Claims settlement expenses	**11.3**	**-**	**11.3**	13.0	-	13.0
At the end of the financial year	**488.1**	**(53.5)**	**434.6**	524.6	(68.2)	456.4

iii) Provisions for unearned premiums

	Gross 2016	Reinsurance 2016	Net 2016	Gross 2015	Reinsurance 2015	Net 2015
At the beginning of the financial year	**220.9**	**(0.3)**	**220.6**	172.4	(0.4)	172.0
Increase in the financial year	**480.9**	**(27.2)**	**453.7**	424.3	(30.5)	393.8
Release in the financial year	**(466.5)**	**27.5**	**(439.0)**	(375.8)	30.6	(345.2)
Movement in the financial year	**14.4**	**0.3**	**14.7**	48.5	0.1	48.6
At the end of the financial year	**235.3**	**-**	**235.3**	220.9	(0.3)	220.6

iv) Unexpired risk provision

	Gross 2016	Reinsurance 2016	Net 2016	Gross 2015	Reinsurance 2015	Net 2015
At the beginning of the financial year	**0.8**	**-**	**0.8**	10.8	-	10.8
Premiums written	**-**	**-**	**-**	0.8	-	0.8
Premiums earned	**(0.8)**	**-**	**(0.8)**	(10.8)	-	(10.8)
Movement in the financial year	**(0.8)**	**-**	**(0.8)**	(10.0)	-	(10.0)
At the end of the financial year	**-**	**-**	**-**	0.8	-	0.8

All amounts are stated in £m unless otherwise indicated

22. Insurance contract liabilities and reinsurance assets (continued)

(v) Analysis of claims development

	Accident year										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	**2016**	**Total**
Gross of reinsurance											
At end of the accident year:	384.5	347.3	325.9	411.3	497.0	502.1	368.1	284.7	285.5	**353.5**	**3,759.9**
One year later	387.8	319.7	333.1	455.4	530.2	473.3	346.9	269.0	268.1		**3,383.5**
Two years later	378.3	310.2	340.5	480.1	527.4	473.0	343.1	263.9			**3,116.5**
Three years later	364.2	300.3	328.7	465.5	518.0	467.9	335.4				**2,780.0**
Four years later	367.0	296.7	320.0	456.3	515.1	458.2					**2,413.3**
Five years later	366.3	293.6	320.4	464.3	508.1						**1,952.7**
Six years later	362.1	294.1	319.7	459.4							**1,435.3**
Seven years later	360.5	294.7	318.8								**974.0**
Eight years later	360.8	294.3									**655.1**
Nine years later	358.1										**358.1**
Estimate for cumulative claims	358.1	294.3	318.8	459.4	508.1	458.2	335.4	263.9	268.1	**353.5**	**3,617.8**
Cumulative payments to date	(350.6)	(292.5)	(311.9)	(446.5)	(502.5)	(436.9)	(298.0)	(223.8)	(203.3)	**(154.2)**	**(3,220.2)**
Gross outstanding claims liabilities before discounting	7.5	1.8	6.9	12.9	5.6	21.3	37.4	40.1	64.8	**199.3**	**397.6**
Provision for prior years before discounting											**79.8**
Discounting											**(0.6)**
Gross outstanding claims liabilities											**476.8**
Gross claims reported											**348.9**
Gross claims incurred but not reported											**127.9**
Gross outstanding claims liabilities											**476.8**

All amounts are stated in £m unless otherwise indicated

22. Insurance contract liabilities and reinsurance assets (continued)

(v) Analysis of claims development (continued)

	Accident year										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	**2016**	**Total**
Net of reinsurance											
At end of the accident year:	372.6	334.6	313.1	398.4	481.2	489.8	350.9	275.9	267.9	**347.7**	**3,632.1**
One year later	377.8	305.5	320.7	434.3	514.8	456.3	330.4	260.6	256.8		**3,257.2**
Two years later	369.8	296.3	325.4	458.6	516.5	458.7	329.7	255.0			**3,010.0**
Three years later	357.8	291.8	317.6	445.2	509.4	456.3	322.0				**2,700.1**
Four years later	359.4	289.6	310.0	439.4	506.9	448.1					**2,353.4**
Five years later	359.2	287.2	307.3	447.9	502.3						**1,903.9**
Six years later	355.2	287.8	310.2	447.2							**1,400.4**
Seven years later	353.7	288.3	310.3								**952.3**
Eight years later	354.0	288.0									**642.0**
Nine years later	351.1										**351.1**
Estimate for cumulative claims	351.1	288.0	310.3	447.2	502.3	448.1	322.0	255.0	256.8	**347.7**	**3,528.5**
Cumulative payments to date	(343.8)	(286.3)	(305.5)	(438.3)	(497.0)	(430.8)	(292.3)	(218.6)	(195.4)	**(152.0)**	**(3,160.0)**
Net outstanding claims liabilities before discounting	7.3	1.7	4.8	8.9	5.3	17.3	29.7	36.4	61.4	**195.7**	**368.5**
Provision for prior years before discounting											**55.4**
Discounting											**(0.6)**
Net outstanding claims liabilities											**423.3**
Net claims reported											**320.2**
Net claims incurred but not reported											**103.1**
Net outstanding claims liabilities											**423.3**

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 2016 result includes movement on prior year reserves of £(47.6)m (2015: £1.9m).

All amounts are stated in £m unless otherwise indicated

23. Taxation

	2016	2015
Current tax		
Asset/(liability) at the beginning of the financial year	**9.6**	(10.6)
Tax credited to the income statement	**4.0**	13.7
Tax credited directly to other comprehensive income:		
Changes in fair value on available for sale assets recognised through other comprehensive income*	**0.7**	1.8
Tax paid during the financial year	**-**	1.8
Group relief received from the Co-operative Bank	**-**	2.9
Asset at the end of the financial year	**14.3**	9.6

	2016	2015
Deferred tax liability		
Liability at the beginning of the financial year	**(5.0)**	(5.6)
Tax credited to the income statement	**1.3**	0.6
Tax (charged) to statement of comprehensive income*	**(3.3)**	-
Liability at the end of the financial year	**(7.0)**	(5.0)
Analysis of deferred tax liability		
Claims equalisation reserve	**(4.3)**	(5.3)
Capital allowances on fixed assets	**0.3**	0.3
Available for sale assets	**(3.1)**	-
Other temporary differences	**0.1**	-
Liability at the end of the financial year	**(7.0)**	(5.0)

*Statement of comprehensive income on page 22.

The Finance Act 2012 abolished the tax relief for the equalisation reserves of general insurers with effect from 1 January 2016. However the Act allows for the release of the reserve equally over a period of six years for tax purposes, with £4.8m being released in 2016. The balance as at 31 December 2016 was £23.8m which had previously 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 17.58%.

The Finance Act 2013 reduced the main rate of corporation tax from 21% to 20% from 1 April 2015, and the Finance Act 2015 subsequently further reduced the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020. This will reduce the societies future current tax charge accordingly. The deferred tax liability at 31 December 2016 has been calculated based on an estimate of the rate at which the asset will reverse, using the tax rates substantively enacted at the statement of financial position date, to arrive at a blended rate of 17.58%.

24. Reinsurance liabilities

	2016	2015
Arising from reinsurance operations	**6.6**	7.4
	6.6	7.4

Premiums due to reinsurers including adjustment premiums due under catastrophe and motor excess of loss contracts, expected reinstatement premium under the catastrophe excess of loss contract and premiums payable under the IPA reinsurance contract.

25. Insurance and other payables

	2016	2015
Arising out of direct insurance operations	**0.9**	1.0
Accruals and deferred income	**38.9**	38.7
Amounts payable to Group companies	**5.0**	2.6
Insurance premium taxation payable	**13.2**	12.6
Other payables	**15.1**	12.2
	73.1	67.1

All amounts are due within one year.

All amounts are stated in £m unless otherwise indicated

25. Insurance and other payables (continued)

Reconciliation of movement of provisions held within other payables.

	Marketing Campaigns	**Software Licence**	**Property**	**Regulatory Levies**	**Other**	**Total**
At 1 January 2016	**1.3**	**0.4**	**0.3**	**-**	**0.1**	**2.1**
Additional Provision	**4.7**	**-**	**-**	**2.0**	**1.3**	**8.0**
Utilisation of provision	**(3.3)**	**-**	**-**	**(1.2)**	**(1.3)**	**(5.8)**
Released to Income Statement	**-**	**(0.1)**	**(0.3)**	**(0.1)**	**-**	**(0.5)**
At 31 December 2016	**2.7**	**0.3**	**-**	**0.7**	**0.1**	**3.8**

	Marketing Campaigns	Software Licence	Property	Regulatory Levies	Other	Total
At 1 January 2015	-	-	-	-	0.1	0.1
Additional Provision	2.1	0.4	0.3	1.1	-	3.9
Utilisation of provision	(0.8)	-	-	(1.1)	-	(1.9)
At 31 December 2015	1.3	0.4	0.3	-	0.1	2.1

Marketing campaigns are food voucher promotions (Great Grocery Giveaway and Extra Ingredients).
Software license provision relates to license asset management.
Property provision relates to a potential required contribution towards asbestos works in a major occupancy.
Regulatory levies provision relates to the FSCS levy.
Other provisions is a potential for write off from our statement of financial position accounts monitoring process, this is regularly reviewed, and no claims discount retrospective remediation.

26. Contingent assets and liabilities

Co-op Insurance has a contract with Plexus Legal (formerly Parabis Ltd) for the provision of claims handling services for third party motor claims. These services are currently treated as VAT exempt within the annual report and accounts. However, this treatment has been challenged by Her Majesty's Revenue & Customs (HMRC). If the view of HMRC is upheld, Co-op Insurance could be liable for a VAT charge (from 2010) of up to £3.5m (2015: £3.1m). 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 Co-op Insurance Society Ltd (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 Co-op Insurance benefited from the original assignment transaction, Co-op Insurance made a cash contribution in 2012 of £2.6m towards the initial provision. In 2013, the provision and Co-op Insurance's cash contribution was transferred into CFSMS. Co-op Insurance 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.

Co-op Insurance 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, Co-op Insurance will pay to PACE its share of the amount due as if it were the principal obligor for such share (for further details see group risk on page 42 and pension risk on page 42). As explained in note 9, Co-op Insurance 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, Co-op Insurance 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 Co-op Insurance 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.

All amounts are stated in £m unless otherwise indicated

27. Commitments

Co-op Insurance entered into a long term "software as a service" contractual agreement. This contract will end no earlier than 2023. The estimated value of the remaining commitment is £148m (2015: £153m), these amounts have not been provided for in the financial statements.

The following table provides analysis of the ongoing operating lease commitments for future minimum lease payments under non-cancellable operating leases by the period in which they fall due.

	2016	2015
Facilities associated with Transformation Programme		
Within one year	**0.5**	0.5
In the second to fifth years inclusive	**0.3**	0.7

28. Parent company

CIS General Insurance 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 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 parent organisation are available from 1 Angel Square, Manchester, M60 0AG.

29. 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-op Group and key management personnel.

Balances at the end of the year

	Balances with parent undertaking 2016	**Co-operative Bank 2016**	**Balances with other related parties 2016**	Balances with parent undertaking 2015	Co-operative Bank 2015	Balances with other related parties 2015
Balances with related parties						
At the beginning of the financial year	**-**	**(0.1)**	**(2.4)**	-	1.3	6.9
Movement in capital value	**-**	**(1.6)**	**(2.5)**	-	(1.4)	(9.3)
At the end of the financial year	**-**	**(1.7)**	**(4.9)**	-	(0.1)	(2.4)

Transactions in the year

The Co-operative Group Limited, provides administration for several of it's subsidiaries. Co-op Insurance has paid £19.1m (2015: £10.9m) to the Co-operative Group Limited in relation to various services within a Master Services Agreement and other costs including estates costs and food vouchers.

Co-operative Legal Services Limited, a subsidiary of the Co-operative Group Limited, provides legal cover to Co-op Insurance motor and home policyholders. Co-op Insurance has paid £2.4m (2015: £1.7m) in relation to this cover.

Co-op E-Store Ltd, a subsidiary of the Co-operative Group Limited, provides electrical goods to Co-op Insurance for marketing campaigns. Co-op Insurance has paid £0.1m (2015: £1.6m).

Co-op Insurance received £1.9m from Co-operative Banking Group Limited, a subsidiary of the Co-operative Group Limited as a rebate of expenses incurred resulting from an historic disposal of a fellow subsidiary.

Co-op Insurance has an indemnification agreement, accounted for as an intra-group guarantee under IFRS 4, with CFSMS in which Co-op Insurance 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 £66.7m (2015: £76.2m) included in operating expenses and claims handling costs incurred were charged to Co-op Insurance from CFSMS.

All amounts are stated in £m unless otherwise indicated

29. Related party transactions (continued)

Key management (as defined by IAS 24) is considered to include the members of Co-op Insurance Board and Executive committee members.

Executive committee members are entitled to participate in the Co-operative Group wide long term incentive plan scheme which has a number of financial and non-financial performance measures. Details of transactions and balances during the financial period are provided below.

Key management compensation

	2016	2015
Salaries and short term benefits	**3.4**	2.9
Other long term benefits	**0.2**	-
	3.6	2.9

In respect of the highest paid director:

	2016	2015
Salaries and short term benefits	**0.6**	0.9
Other long term benefits	**0.2**	**-**
	0.8	0.9

All staff costs are borne by CFSMS, an allocation is then charged to CIS General Insurance Ltd at cost.

30. 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.

(b) Available for sale assets

Fair value of listed debt securities is based on clean bid prices at the statement of financial position 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 current market price.

(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 for those liabilities not disclosed at fair value.

Financial liabilities	**Carrying value 2016**	**Fair value 2016**	Carrying value 2015	Fair value 2015
Borrowed funds	**67.7**	**76.5**	67.7	71.4

All amounts are stated in £m unless otherwise indicated

30. Fair values of financial assets and liabilities (continued)

Financial asset and liability classification

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

Statement of financial position categories 2016	**Designated at fair value**	**Loans and receivables**	**Available for sale**	**Other amortised cost**	**Total**
Assets					
Financial assets at fair value through income or expense	**225.9**	**-**	**-**	**-**	**225.9**
Available for sale assets	**-**	**-**	**687.7**	**-**	**687.7**
Other financial assets	**-**	**159.2**	**-**	**-**	**159.2**
Total financial assets	**225.9**	**159.2**	**687.7**	**-**	**1,072.8**
Non-financial assets					**125.4**
Total assets					**1,198.2**

Statement of financial position categories 2016	**Designated at fair value**	**Loans and receivables**	**Available for sale**	**Other amortised cost**	**Total**
Liabilities					
Borrowed funds	**-**	**-**	**-**	**67.7**	**67.7**
Overdrafts	**5.8**	**-**	**-**	**-**	**5.8**
Other financial liabilities	**72.0**	**-**	**-**	**-**	**72.0**
Total financial liabilities	**77.8**	**-**	**-**	**67.7**	**145.5**
Non-financial liabilities					**738.1**
Total liabilities					**883.6**
Capital and reserves					**314.6**
Total liabilities and equity					**1,198.2**

Financial asset and liability classification

2015	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total
Assets					
Financial assets at fair value through income or expense	199.1	-	-	-	199.1
Available for sale assets	-	-	692.0	-	692.0
Other financial assets	-	190.6	-	-	190.6
Total financial assets	199.1	190.6	692.0	-	1,081.7
Non-financial assets					137.9
Total assets					1,219.6

All amounts are stated in £m unless otherwise indicated

30. Fair values of financial assets and liabilities (continued)

2015 **Liabilities**	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total
Borrowed funds	-	-	-	67.7	67.7
Overdrafts	3.6	-	-	-	3.6
Other financial liabilities	66.4	-	-	-	66.4
Total financial liabilities	70.0	-	-	67.7	137.7
Non-financial liabilities					759.3
Total liabilities					897.0
Capital and reserves					322.6
Total liabilities and equity					1,219.6

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), Co-op Insurance classifies debt securities in Level 1 only if it can be demonstrated on an individual security by security basis that the price quotes obtained are representative of actual trades in an active market (through obtaining binding quotes or through corroboration to published market prices). Pricing providers cannot 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 **2016** **Assets**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through income or expense	**-**	**225.9**	**-**	**225.9**
Available for sale assets	**-**	**687.7**	**-**	**687.7**
Total financial assets at fair value	**-**	**913.6**	**-**	**913.6**

Valuation of financial instruments **2015** **Assets**	Level 1	Level 2	Level 3	Total
Financial assets at fair value through income or expense	-	199.1	-	199.1
Available for sale assets	-	692.0	-	692.0
Total financial assets at fair value	-	891.1	-	891.1

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, Co-op Insurance 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.

All amounts are stated in £m unless otherwise indicated

30. Fair values of financial assets and liabilities (continued)

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).

Investments in debt securities as:	**Carrying amount 2016**	**Fair value 2016**	**Amortised cost 2016**
Available for sale financial assets	**687.7**	**687.7**	**664.4**
Investments in debt securities as:	Carrying Amount 2015	Fair value 2015	Amortised cost 2015
Available for sale financial assets	692.0	692.0	684.0

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