CIS General Insurance Limited
23 September 2016
Interim Financial Results 2016

Co-operative Group Limited ('Group'), the parent entity of CIS General Insurance Limited, has today announced its Interim Financial Results 2016. A copy of the Group announcement, which includes references to the performance of CIS General Insurance Limited (the 'General Insurance' business) is provided below.

The CIS General Insurance Limited Investor Pack will shortly be available to view at the following website: http://www.co-opinsurance.co.uk/investor-relations/financial-results/interim-report-2016

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23rd September 2016

Interim results for Co-operative Group Limited for the 26 weeks ended 2 July 2016

INVESTMENT DRIVES SALES GROWTH AS CUSTOMERS RETURN TO THE CO-OP

- **Planned reduction in profit following continued Rebuild investment, colleague pay increases and price cuts; debt held steady at £0.7bn**
- **Food business continues to deliver with success of own brand-led convenience strategy**
- **Strong growth in pre-paid funeral plans offsets lower death rate in Funeralcare**
- **General Insurance sales rise sharply following member-pricing initiatives**

Group highlights:

- Revenue increased by 2.2% to £4.7bn (2015: £4.6bn) as customer transactions grew by 3.3%
    - Food like-for-like sales rose by 3.1%
        - Core convenience business grew ahead of market after investment in price and products, with like-for-like sales up 4.3%
    - Funeralcare revenues held, with significant growth in pre-paid funeral plan sales offsetting lower death rate
    - General Insurance (GI) delivered strong sales and profits performance, with more than 100,000 new policies sold in first half after launch of member-focused pricing initiatives
- Planned reduction in profit, driven principally by Rebuild investment, pay increases for frontline colleagues and price reductions in Food
    - Underlying profit before tax* of £31m (2015: £63m)
    - Profit before tax of £17m (2015: £36m)
- Half way through three-year Rebuild phase, with further investment made in improving our brand and membership offer
    - Capex of £149m (2015: £144m) as further improvements made to food stores and funeral home estate
    - Costs from supporting functions increased from £37m to £52m to support required investment in brand and membership relaunch, and creation of new Digital division
    - Major investment in Co-op colleagues as 5,400 managers attend “Being a Co-op Leader” events and all 70,000 colleagues embark on “Back to Being Co-op” sessions
- More than 5 million members set to receive new Co-op cards to mark the launch of our compelling new membership offer, placing customers and communities firmly at the heart of the Co-op again
- Successful disposal of non-core food properties which do not align with food strategy focused on delivering a compelling and convenient shopping experience for members
- Debt at £0.7bn (2015: £0.6bn), in line with stated aim to keep debt around £0.9bn during Rebuild

Richard Pennycook, Group Chief Executive of the Co-op, said:

“These are exciting times for the Co-op as we continue to make this a better business that is more relevant for members, customers, communities and colleagues. These results, along with today’s relaunch of our compelling new membership offer, show the real value of “being Co-op” and our difference as a business. Revenues across the Group have grown and, in line with our strategy, profitability has fallen due to our major Rebuild investment, pay increases for our people and price cuts for our customers. We are able to invest for the long-term, strengthening the appeal of our products and services, because our business model allows us to pursue our unique approach, championing a better way of doing business for customers and communities.

“This long-term approach is evidenced by the continued reshaping of our Food store portfolio to support our own-brand, convenience-led strategy. This means we can, as necessary, forgo sales growth in order to ensure we have the right stores in the right places for our customers.

"We are only half way through the Rebuild and much remains to be done, whether it is investing in our digital capability or campaigning on key issues. We remain firmly on track with our plans and are encouraged that the work we are doing is attracting more and more people back to the Co-op."

Allan Leighton, Independent Non-Executive Chair of the Co-op, said:

"We are delighted that our members, our customers and our people have so enthusiastically backed our plans to create a new Co-op economy, based on a better way of doing business. These results show that we are moving in the right direction – be that in going back to our roots with a return to an iconic brand, the launch of our new member offer or our partnership with the British Red Cross which has already raised £3m. It is the support of our members, under a strengthened governance structure enhanced by committed colleague engagement, that means we can continue to pursue our strategy with confidence."

Summary of business performance

- **Food**
  - Clear momentum in strategy to deliver a compelling and convenient shopping experience to millions of customers and members every day within their local communities
  - Like-for-like sales grew 3.1%
    - Core convenience business grew 4.3%
  - Food business has had six consecutive quarters of positive life-for-like sales
  - Underlying profit fell to £63m (2015: £88m), driven by significant investment in customer offer in terms of price investment, fresh food range and increased colleague pay
  - Remain the most frequently visited retailer in the country, according to Kantar, as customers shop little and often and at lower prices through core convenience offer
  - 30 new Food stores opened as part of the 100 planned in 2016, with a refit of an additional 80 stores nationally
  - Continued refocus of store estate:
    - Purchase of 15 Budgens stores and 8 stores from MyLocal, supporting focus on convenience store retailing
    - Sale of the remaining assets within Somerfield Stores Limited, recognising a profit on disposal.
  - Sale of 298 smaller Food stores, which fell outside of our core strategy, to McColls for £117m. The sale proceeds, once received, will be re-invested to further deliver the Food strategy. Whilst the sale in the short-term will reduce the number of outlets by around 10%, the revenue impact will be circa 3%, given the average size of the stores being sold

- **Funeralcare**
  - Market-leading position further strengthened in a period when the death rate fell year on year by 11,000 to 303,000
  - Underlying profit reduced to £42m (2015: £47m) on sales of £164m (2015: £162m)
  - Funeral plan sales increase significantly through a strong focus on member pricing and website improvements, with 60% of new plan sales coming from members, up from 30% previously. Co-op Funeralcare's market share for funeral plan sales tops 25%.
  - 12 further funeral homes opened, including our 1000th. Continue to be the only UK funeral director to offer an apprenticeship in Funeral Operations and Services
  - Agreed the sale of crematoria operations to Dignity for £43m, to invest more into core funeral homes business
  - Re-launched Simple Funeral, cutting the price of lowest price funeral by 7%, making products more affordable without compromising on quality
  - Improvement of website to include an online comparison tool to make funeral planning more accessible and transparent
  - First business to sign Fair Funerals' new enhanced pledge to tackle funeral poverty

- **General Insurance**
  - Sales performance strong, with Gross Written Premiums** increasing 29% to £242m (2015: £187m) and Net Earned Premiums*** increasing to £208m (2015: £159m)

- Underlying operating profit improved to £11m (2015: £2m)
- Increased premium levels reflect motor price rises across the industry, but also initial benefits from the investment made into our pricing capabilities
- Total in force policy count increased from 1.28m to 1.48m
- More than 100,000 more new policies sold, compared with same period in 2015
- In line with Group's strategic community focus, GI launches new partnership with Neighbourhood Watch and Brake as part of the "making communities safer campaign"

- **Legal Services**
  - Sales rose to £11m (2015: £10m)
  - Underlying operating profit of £1m (2015: £Nil)
  - Acquisition of Collective Legal Solutions at the end of 2015 enables our legal services business to expand its Wills, Trust and Probate services across England and Wales

- **Electrical**
  - Sales declined to £33m (2015: £36m)
  - Underlying operating loss of £1m (2015: £1m loss)
  - Electrical business moved into the Co-op's new Digital division to provide it with greater focus and digital capability to enhance the customer offer and experience

- **Membership, democracy and governance**
  - Successful AGM in May; announced we were going back to 'Being Co-op' by placing membership and community firmly at the heart of our business again
  - Unveiled a return to iconic blue clover-leaf logo with around half the estate rebranded before the end of 2017 and plan for launch of new compelling membership offer, which is detailed in a separate announcement today
  - Group Board further enhanced with the appointments of Lord Victor Adebowale as a Non-Executive Director, Margaret Casely-Hayford as a Member-Nominated Director and Ian Ellis as an Executive Director

- **Colleagues**
  - Full annual impact of the 8.5% pay award for food colleagues, announced last year, which took them ahead of the National Living Wage threshold
  - Colleagues actively involved in shaping the Co-op under strengthened governance structure, with 17 colleagues on the 100 strong members' council
  - Co-op Executive takes strong leadership position, post the EU referendum, on the call to allow existing colleagues from EU to remain in the UK
  - Over 440 new Co-op apprentices appointed in the first six months
  - Co-op colleagues participate in the new membership offer trial, with a sharp increase in colleague sales witnessed
  - 70,000 Co-op colleagues embarked on a unique "Back to Being Co-op" journey which reconnects them with Co-op heritage and values
  - Significant investment made in building the leadership skills of our colleagues with over 5,400 attending "Being A Co-op Leader" programme, with phase 2 now underway
  - Co-op colleagues play a major role in us reaching £3 million fundraising mark to help tackle isolation and loneliness

- **Outlook**
  - Whilst we are mindful of some political and economic uncertainty, our focus remains on delivering the next-stage transformation initiatives which will complete our three-year Rebuild during 2017. Central to this will be the roll-out of our new brand and membership offer, which will reward our members and their local communities on the back of Co-op trade. The development of this new "Co-op economy" will stimulate new product development and service innovation, especially from our new Digital team, as well as influencing heavily our future campaigning and community-based strategies. We are now in a position where we can again place our members' interests firmly at the heart of the Co-op and the next 6-12 months will see far more member-engagement occur so we know we are providing the right mix of goods and services to meet their requirements
  - In light of the continuing rebuild investment we expect 2016 full year profits to be lower than

those in 2015.
- In keeping with previous guidance, the Board anticipates dividend payments resuming after the three-year Rebuild programme has completed

* Underlying profit before tax is statutory profit before tax, but stripping out the effects of property and business disposals (including individual store impairment), change in value of investment properties, profits / losses from associates / joint ventures, one-off costs, pension finance income and non-recurring finance costs. A full reconciliation to statutory profit before tax can be found on page 16.
** Gross written premium (GWP) is the total expected value of all new and renewing policies in the period
*** Net earned premium (NEP) is the amount of premium that has been recognised in the period after reinsurance costs have been deducted.

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Note to editors

About The Co-op Group:

The Co-op Group, one of the world's largest consumer co-operatives, with interests across food, funerals, insurance, electrical and legal services, has a clear purpose of championing a better way of doing business for you and your communities. Owned by millions of UK consumers, The Co-operative Group operates a total of 3,750 outlets, with more than 70,000 colleagues and an annual turnover of approximately £10 billion.

New Membership benefits

A percentage (currently 5%) of the amount a member spends on Co-op own brand products and services will be credited to the member's account and can be used as a discount against products and/or services when they trade with us in the future; and a percentage (currently 1%) of the amount a member spends on Co-op own brand products and services will be awarded to the member's account for them to donate to a good cause of their choosing from a selection being supported by Co-op.

Colleagues within a Co-op community will initially select three local charities for members to support with their 1% community benefit for a period of six months. After this Co-op members will be able to put forward charities and causes from their communities which they believe will benefit the local community. This will result in thousands of local causes benefitting.

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Co-operative Group Limited

Interim Report 2016

Chair’s introduction

“Our Co-op has always been at its best when we put our members and their communities at the heart of our work”

In the week this Interim Report is published we’ve launched our new Co-op Membership, the biggest change we’ve made in our Co-op member benefits for decades. At our Annual General Meeting in May, we also announced a return to a Co-op brand identity which we first used nearly 50 years ago. We summed up the changes we’re making as going back to ‘Being Co-op’.

But our decisions have nothing to do with nostalgia.

We’re drawing on the past because we understand that our Co-op has always been at its best when we put our members and their communities at the heart of our work. By returning to those priorities we’re making the Co-op relevant to our millions of members once again. From the autumn we’ll start to see our members choosing Co-op more and more and gaining rewards for themselves and their communities every day.

By 2018 we expect to give back £100m a year to our members and the local causes they care most about through the 5% reward for you and 1% for your community.

The return of our iconic Co-op look reconnects us to a time when Co-op Membership and our values-led approach to business were well understood and seen as part of the nation’s fabric.

In June we passed the mid-point in our three-year Rebuild. Eighteen months of thinking, planning and implementation are now coming together and about to be put to the test. We’ve made significant investment in every part of the Group to ensure that our products and customer service are first class. Our business performance is on track as we continue to invest profits in further improvements to service and value.

We’re confident that the strategy we’re following will return our Co-op to being a much loved and admired UK institution.

Allan Leighton
Group Chair

The role of our Board and Council

Central to our Rebuild has been the re-organisation of our Co-op democracy and our ability to provide member scrutiny and governance at the highest professional level to all of our work. Over the last 18 months our new constitutional arrangements have been bedding-in and are now operating well.

Since May our Board has included an additional Member Nominated Director (MND), Margaret Casely-Hayford, who's joined our existing three MNDs. Margaret was Director of Legal Services for the John Lewis Partnership for nine years and is currently Chair of international development charity, ActionAid UK. Together our MNDs are ensuring that our strategic decision making is informed with a strong member voice.

Also joining us in April as an Independent Non-Executive Director was Lord Victor Adebowale. Victor is Chief Executive of Turning Point, the health and social care organisation, and also a Non-Executive Director of NHS England. Ian Ellis, our Group Chief Finance Officer, also joined the Board in April.

All our Directors share a commitment to Co-op values and collectively they have a broad range of commercial and organisational experience suitable for an organisation of our scale and complexity.

As we continue to develop our business strategies, the 100 members on our elected Council are providing invaluable input into our thinking and ensuring our Co-op values are not only upheld but championed in every aspect of our work.

Chief Executive’s statement

“The investment we’ve been making means that when we launch our new Co-op member rewards we’ll have created a compelling and distinctly Co-op offer…”

We're growing our businesses, improving our products and strengthening our customer service. Even before we’ve launched our new Co-op Membership we’ve seen increased revenues across the Group, with revenue increasing to £4.7bn (2015: £4.6bn).

We show our profit using two different measures in common with other large businesses in the UK. For the first half of 2016 our Underlying Profit before Tax was £31m, which compares to £63m during the first half period in 2015. This measure excludes one-off items such as restructuring costs and profits from property disposals.

The £32m fall in underlying profit before tax was expected and planned, reflecting continued investment in Rebuild in our supporting functions and business areas. The ongoing investment in developing and revitalising our membership offer and brand, and in all our colleagues through the Back to Being Co-op programme, has contributed to an increase of £15m in the costs of our supporting functions. Food’s lower profits reflect our continued investment in price and colleague pay.

Profit before Tax of £17m compares to £36m for the same period in 2015 with certain one-off or non-trading items included.

Two of these items are particularly worthy of note. First we made a net £21m profit on asset disposals, principally relating to the sale of crematoria in Funerals and non-core trading properties in Food. Secondly we made a net loss of £31m on our share of associates. This comprises a write down of £45m on our investment in The Co-operative Bank which we have valued at £140m, consistent with falls in bank valuations generally. This was partly offset by a £16m profit relating to a minimum sales value guarantee should we decide to sell our stake in our travel joint venture with Thomas Cook.

A reconciliation of Profit before Tax to Underlying Profit before Tax is included in the Condensed Consolidated Income Statement on page 16.

We committed to keeping our debt levels below £0.9bn for the duration of our Rebuild and we’re keeping to that target. Our Rebuild investment is on track, with our members and customers already benefiting from price reductions and product and service improvements:

- In Food we’ve cut prices on over 200 of our own brand British sourced meat and poultry products.
- In Funerals we’re tackling funeral affordability through the introduction of our Simple Funeral offers.
- In Insurance we’re investing in a new integrated insurance IT platform in conjunction with IBM.
- In Legal Services we’ve acquired Collective Legal Solutions to expand our reach in the market.
- In Digital we’re growing our capability not only to support our existing businesses but to develop innovative new services for our members

Colleagues

We want our colleagues to be the Co-op’s most passionate advocates as they’ll be championing our new Co-op Membership to our customers. To help lead the changes we’re making we invited more than 5,400 of our team leaders to Being a Co-op Leader events during the spring.

We explained the significance of the changes and the role they’ll be playing to reconnect with our members and their communities. These leaders are now taking part in follow-up events so they feel ready to lead their teams through the remainder of Rebuild and into our Renewal phase.

Following the AGM we also began taking all 70,000 of our colleagues on a unique face-to-face engagement session called Back to Being Co-op to inspire them with our Co-op heritage and values. This involves 5,000 colleague events being held across the country.

Our colleagues have already seen the value of our investment with pay increases of 8.5% for 40,000 of our Food colleagues taking them ahead of the Government’s targets for the introduction of the National Living Wage.

Launching our new Co-op Membership

We’ve begun the re-branding of our stores and branches to our new Co-op look to draw attention to the changes we’re making to Co-op Membership. Our aim is to reconnect with our existing members and remind them what's special about the Co-op and encourage them to use the new card more and more.

We’ve already given the new Co-op rewards to our own colleagues so they’ll be familiar with the new scheme and confident to explain and champion it to our members. Our colleagues have been enthusiastically earning their 5% and 1% rewards when they buy Co-op own brand products and services. We’ve seen a sharp increase in colleague sales, in particular Co-op brand food, which we hope to see mirrored and amplified by our wider membership.

At present around 2.6 million members are ‘active and currently trading’ with us – by which we mean they’ve shopped in our Food stores within the last three months, with our Electricals business within the last six months or with our Funerals, Insurance or Legal Services businesses within the last 12 months. Across the Group we sell 20% of our products and services to our members who are swiping their membership cards, and as we said at our AGM, we want to attract a million new members over the next five years and increase our sales to members to 50% of the total.

Over the summer our colleagues in 1,500 communities, located around stores and branches across the UK, have identified the first wave of 4,500 local causes that can be supported through the 1% member reward. When members log in to their online member account they’ll be able to select which of three local causes to give their 1% reward. In future selections our members will be able to nominate local causes themselves.

Tackling loneliness

Tackling loneliness and social isolation remains our national Co-op campaign, voted for by our colleagues and members, in partnership with the British Red Cross. We're on track to reach our fundraising target of £3.5m and have been carrying out research to determine how best to use the money.

Before the end of the year we'll announce the findings of that research and the many ways in which we'll address loneliness across the country. This will be another way in which our Co-op will lead the way on a social issue that needs far greater attention than it currently gets.

Ethical leadership

We've always led the way on social responsibility. Over the decades we've pioneered on issues such as Fair Trade, climate change and human rights through our supply chain. We're going to continue to be ambitious about our ethical leadership.

In the spring we set up the Co-op Way Policy Committee, bringing together elected members, business leaders and experts from across the Co-op. They're working to review and update our social responsibility agenda.

We're going to be clear about where we'll take a stand and agree the campaign issues that are most relevant to our members, and they will be asked to help us make some of the tough choices any ethical business has to make. We'll set ourselves ambitious targets and make sure everyone knows how we're measuring up to them.

The changes we're making through our Rebuild are, for the first time in a generation, making sure our business strategy and our Co-op Membership strategy are working together to reward our millions of co-owners.

We're creating value for our members and their communities that's distinctively co-operative and cannot be matched. As that "better way of doing business" becomes better understood we'll return to long-term and sustainable success.

Richard Pennycook
Group Chief Executive

Business Review

Food

- Sales £3.5bn (in line with prior year) & Profit £63m (down 28.4%)

We continue to invest heavily in our Food business for the benefit of our members and customers with a focus on price reduction and product improvement. We've also begun the refit of our store estate to our new Co-op look, and we're in the second year of our two-year pay increase for store colleagues.

Our long-term strategy remains one of growing our core convenience store estate where our performance is ahead of the market.

Investment in Colleagues

The full impact of our 8.5% pay increase for store colleagues took effect this year – ahead of the government's target for the introduction of the National Living Wage.

Investment in Price

We're continuing to invest in price reductions, cutting prices on over 200 of our own brand British sourced meat and poultry products. This follows earlier price investment during 2015 on fresh fruit and vegetables.

Investment in Products

The development of our own brand ranges continues to win us awards, with 77 of our own brand products either winners in their categories or achieving Gold or Silver awards so far this year.

We've also won a number of other industry awards, including the prestigious National Convenience Chain of the Year in the International Wine Challenge Merchant Awards; Sandwich Convenience Retailer of the Year and the Ethical and Green Drinks Retailer of the Year.

We continue to support British farming – having extended our British lamb season in store, and we've also developed a wider British fruit and veg offer and increased collaboration with producers.

Following the success of our local sourcing pilot in Yorkshire we're now expanding this to Lancashire.

The significant investment we have been making in the quality of our own brand products saw us increasing own brand sales in the first half to over £1.3bn, up 5.1% on 2015.

Investment in Our Stores

We've added 30 stores and disposed of 70 in line with our aim of having stores of a size that offer the range of our products that customers demand.

We are on track to have the iconic clover-leaf logo above the door of around 600 stores by the end of the year.

Just after the end of the half year we announced the sale of 298 of our smaller shops to convenience store specialist McColl's Retail Group for £117m. This was in line with our strategy, as these stores did not allow us to provide a sufficiently compelling own-brand offer which is central to the launch of our new Co-op Membership rewards. The income from the sale will be used for further store acquisitions and refits.

Performance

Our Food sales performance during the first half of 2016 has outstripped the UK grocery market's performance. After the discounters, we are the fastest growing retailer in the UK. Within our core convenience estate our like-for-like sales were up 4.3%. The estate as a whole was up 3.1%. However, profits are down on the same period last year due to our investment in price reduction and our focus on fresh produce, the increase in colleague pay, and the roll-out of our new brand.

Customer satisfaction and advocacy scores are rising – proving how our colleagues are bringing our Co-op difference to life every day.

We've donated over half a million meals through our Fareshare partnership – giving perfectly safe and edible food destined for landfill to feed those in need.

We've trebled contactless payments over the past year – making us not only convenient to shop in, but convenient to pay in too. We've now introduced myHermes postal services to 400 stores – giving customers yet another reason to pop to their local Co-op.

A look ahead

The food retail market will continue to remain highly competitive in the coming six months and we're prepared for further 'price reductions' from our main competitors.

The launch of our new Co-op Membership will give an additional focus on the quality and stories we can tell about our own brand products, in particular our new Co-op Irresistible range.

We'll continue the rebrand of our stores on the timescale of our existing refit programme to minimise additional cost. Following the decision to sell around 300 stores to McColl's that did not fit our focus on convenience and own brand we expect to see a short term dip in market share. However, our aim remains to open 100 new Food stores by the end of 2016.

Our Membership offer, giving back to our members and their communities, plus the passion and dedication of our colleagues, will demonstrate how the Co-op is at the heart of the communities we serve.

Funeralcare

- Sales £164m (up 1.2%) & Profit £42m (down 10.6%)

We have ambitious plans to grow our funerals business over the coming years and provide the best service to our clients, members and the communities we serve. We're investing in every aspect of our services including addressing the issue of funeral affordability.

We've confirmed our commitment to tackling the rising cost of funerals by being the first funeral director to sign the enhanced Fair Funerals pledge. We know that choice is important to our clients as families look to celebrate the lives of their loved ones through ever more tailored and meaningful ceremonies and we're improving our provision to reflect that.

We opened our 1,000th funeral home in June, a significant milestone in our strategy to grow our estate, with 200 more new funeral homes scheduled to open over the next three years. We continue to invest heavily in our colleagues, products, services and processes, which includes improvements to our car fleet and online services. We also have plans to refit our entire estate over the next 3 years. To support this ongoing investment we announced at the end of May that we were selling our five crematoria to Dignity plc for £43m.

Investment in Colleagues

We welcomed our 1,500th apprentice, a 67 year-old former Detective Sergeant, to Funeralcare and we remain the only funeral director with an apprenticeship scheme.

Investment in Products and Price

We launched our new Simple Funeral (reducing the cost of our lowest price funeral by 7%), and our new Simple Funeral Plan and new payment options to help tackle the ongoing issue of funeral affordability. We became the first funeral director to sign the enhanced pledge with Fair Funerals.

We worked with our Digital team on creation of online at-need service (during bereavement).

We held our prices on Funeral Plans and launched improved members offers while launching a new national advertising campaign for pre-need.

Investment in Our Funeral Homes

We've agreed new plans to grow the business and open 200 new funeral homes over the next three years. Our refit programme to change funeral homes to the new look is ahead of plan with 86 already completed by September. We opened our 1,000th funeral home in June and agreed the sale of five crematoria to Dignity plc for £43m.

Performance

A lower than expected death rate meant we arranged fewer funerals than expected. This was in contrast to the first half of 2015 which was our busiest start to a year for seven years.

Despite this slowdown, we continue to see improvements in market share and funeral plan sales have performed far beyond expectations.

A look ahead

To support our growth plans for Funeralcare we're looking at how best to improve our systems and processes for the benefit of our clients with the aim of encouraging stronger recommendations from the communities we serve. Our ambition is to demonstrate not only market share but leadership in terms of quality provision and choice within the funeral sector.

Insurance

- Sales £208m (up 30.8%) & Profit £11m (up £9m)

We're mid-way through a major investment for our Insurance business as we move to a completely new IT platform, in partnership with IBM, which will radically improve the experience of our members and customers from 2017.

We're also working on new home and motor insurance products to complement the new technology that's coming and provide members with great offers.

Transparency has been at the top of the agenda and we've been working on initiatives to cut through the jargon and make customers more aware of where their money goes.

Investment in Members, Customers and Colleagues

We worked to support members and customers affected by the winter floods, visiting local communities within hours and ensuring our call centre was staffed over the holiday season.

We've announced a new partnership with Neighbourhood Watch which aims to create 30,000 new schemes making communities safer. We also held the inaugural Co-op Insurance Safe Used Car of the Year Award aimed at improving road safety.

Investment in Prices and Products

We marked the fifth anniversary of our Young Driver scheme, helping thousands of young drivers improve their driving, making roads and communities safer, and helping reduce the cost of insurance for young people.

We launched initiatives to improve transparency for customers including an online tool for home insurance and a video for motor insurance – looking to educate people on where their money goes.

We also began our 'extra ingredients' campaign rewarding new motor and home insurance customers with £50 of Co-op Food vouchers.

We've campaigned for changes to the driving test to better equip young drivers for life on the road and we relaunched our Small Business insurance proposition in partnership with Miles Smith.

Investment in Processes

We introduced a new telephony system across the business as part of our transformation programme, improving our day to day customer experience. This will speed up our service and help us to handle customer enquiries more efficiently.

Performance

Sales performance for Insurance has been strong with over 100,000 more new policies sold in the first six months of 2016 compared to the same period last year. Our own Co-op members account for a significant proportion of new sales.

The total number of insurance policies currently operating has increased from 1.28m in the first half of 2015 to 1.48m now. Our give-away of £50 of Co-op Food vouchers with new policies has proved popular and allowed us to introduce our customers to the biggest part of our Co-op family.

A look ahead

It's been a tough few years for the Insurance market in general but Co-op Insurance has adapted well to an ever changing landscape.

Once our IT transformation is complete, Insurance will join the new Co-op Membership and offer the 5% and 1% rewards.

From January 2016, the insurance business has operated under the Solvency II regulatory reporting regime which sets out capital requirements for the business. Our insurance business meets, and anticipates continuing to meet, all these regulatory capital requirements.

Legal Services

- Sales £11m (up 10%) & Profit £0.6m (up £0.8m)

2016 marks the 10th anniversary of our Legal Services business which helps our members and customers to deal with legal events as quickly, helpfully and transparently as possible. Simply put, we aim to deliver accessible, expert and trusted legal services with transparent pricing.

At the end of last year we acquired Sheffield-based Collective Legal Solutions. The acquisition has helped us to build our support into communities throughout England and Wales with face-to-face advice on estate planning, wills, lasting powers of attorney (LPAs), trust and probate. The business brings to us more than 100 associates and support colleagues.

Performance

Our sales have increased 10% year on year. Estate planning sales (wills, trusts and LPAs) now form 18% of our business up from 3% in the prior year. Our probate and estate administration business continues to grow and is up 6% on prior year despite a lower UK death rate than in the same period last year. The revenue growth is aligned with our plans and our profit is in line with expectations as we continue to invest in the business.

A look ahead

During the second half of 2016 we'll continue to focus on growing estate planning, probate and estate administration while providing our members with access to legal services support. We will continue to invest in improving our customer services and improving our customer satisfaction as we continue to use technology to improve processes and services.

We are currently building an advanced solution for the probate and estate administration business to simplify taking customer instructions and to speed up case initiation. We are also continuing to develop our online platform to make it easier for people to instruct us on estate planning services.

Digital including Co-op Electrical

- Sales £33m (down 5.6%) & Loss £1.1m (up 34.4%)

Digital is our newest business division and by investing in this area now we'll create huge potential for the future. We've been expanding rapidly our digital talent and capability in the first half of this year.

In the spring we took the decision to move our Co-op Electrical business from Food to Digital to give an already successful business greater resource and focus. Meanwhile, the Digital team is helping us to enhance the member and customer experience for all of our existing businesses by developing new products and services such as online wills for our Legal Services business.

Co-op Electrical Performance

Whilst total sales fell, with buying group volumes being lower than in the previous year due to other co-operative societies continuing to exit their department store businesses, our core internet sales grew in the first six months by 5% compared to the previous year.

Co-op Electrical continues to receive great customer feedback with independent reviews from feefo scoring our service at an excellent 97%. We are looking forward to a positive second half of the year with the launch of our new website in the autumn.

A look ahead

Our Digital team is pioneering a culture of radical transparency by publicly sharing our thinking and research as we develop new products and new ways for our members to communicate with us and each other. Working alongside our Membership team, Digital is developing the approach we'll use to make our members' voices heard and a new Co-op conversation to develop across social media.

Digital's approach is based on achieving a thorough understanding of customer need and end-user testing. In the second half of the year we're exploring partnerships with other businesses and social enterprise projects, where we have shared values.

Looking ahead

The next six months will be an exciting and critical time in the Rebuild of our Co-op; however, in light of the continuing Rebuild investment we expect 2016 full year profits to be lower than those in 2015.

As we launch our new Co-op Membership we'll be tracking closely how our existing members respond to our new 5% and 1% rewards, the effect this has on the sale of Co-op branded goods and services and how local communities are benefiting.

We'll use the rich data we'll be gathering to inform our thinking for the second half of our Rebuild and beyond.

Early in 2017 we'll begin a national advertising campaign *'The Co-op Way'* to explain our Co-op difference and invite the nation to join our new Co-op Membership. The campaign will not be from one particular area of the business but instead will explain and celebrate how we collectively are "a better way of doing business for you and your communities".

By March 2017 we expect to have donated in the region of £6m to local causes across the country. That will give us 4,500 local stories to share about how the Co-op is making communities stronger and bringing people together.

We expect our Rebuild phase to be completed by 2018 by which time the innovations we've been making will have set us up for the long term. Our Co-op will once again be a commercially successful, much loved and admired British institution.

Principal Risks and Uncertainties

The first half of 2016 has seen the continuing implementation of the Risk Management Framework, which provides assurance that strategic decision making is underpinned by an effective and robust risk management methodology. The focus so far in 2016 has been to review the risk 'universe' to determine the areas of risk that the Co-op is potentially exposed to.

In order to strengthen the governance of risk management, a Risk Committee of the Executive team was established early in 2016. Its main responsibilities are to; drive implementation of the Risk Management Framework and ensure it is embedded within business areas and functions; manage the priority risks across the Co-op with focus on ensuring execution of the actions to bring the risks within agreed levels; and provide assurance to the Board Risk and Audit Committee on the adequacy and effectiveness of internal controls. The Executive Risk Committee meets quarterly.

The principal risks and uncertainties faced by the Group remain as those set out in the 2015 Annual Report and Financial Statements. These can be summarised as follows:

- Business Strategy and Transformation
- Bank Separation
- People Capability
- Market and Economy
- Financial and Treasury
- Brand and Reputation
- Ethical Sourcing and Food Fraud
- Assurance and Compliance

- IT Operations and Information Security

The Group has assessed the immediate and potential impacts of the recent vote in favour of the UK leaving the EU, and will continue to monitor the potential impacts as the legislative framework evolves.

More information on the principal risks and how the Group mitigates those risks can be found on pages 33-35 of the 2015 Annual Report.

Responsibility statement of the directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU

- the interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year

By order of the board of Co-operative Group Limited

Allan Leighton
Group Chair

22 September 2016

Independent review report by Ernst & Young LLP to Co-operative Group Limited

Introduction

We have been engaged by Co-operative Group Limited ("the Society") to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 2 July 2016 which comprises the condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Society in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in the general accounting policies section of the 2015 Annual Report, the annual financial statements of the Society are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Society a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 2 July 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Manchester
22 September 2016

Condensed Consolidated Income Statement

For the 26 weeks ended 2 July 2016

	Notes	**26 weeks ended 2 July 2016 (unaudited)** £m	26 weeks ended 4 July 2015 (unaudited & restated*) £m	52 weeks ended 2 January 2016 (audited & restated*) £m
Revenue		**4,699**	4,561	9,201
Operating expenses		**(4,646)**	(4,489)	(9,132)
Other income		**19**	23	43
Operating profit	1	**72**	95	112
Finance income	3	**39**	19	39
Finance costs	4	**(63)**	(78)	(117)
Share of loss of associates and joint ventures	8	**(31)**	-	(11)
Profit before tax		**17**	36	23
Taxation	5	**(6)**	3	(8)
Profit for the period (all attributable to equity holders of the parent)		**11**	39	15

Non-GAAP measure: underlying profit before tax

	Notes	**26 weeks ended 2 July 2016 (unaudited)** £m	26 weeks ended 4 July 2015 (unaudited) £m	52 weeks ended 2 January 2016 (audited) £m
Analysed as:				
Profit before tax (as above)		**17**	36	23
Add back / (deduct):				
One-off items	1	**19**	26	62
(Profits) / losses from property and business disposals		**(21)**	(8)	14
Change in value of investment properties		**(2)**	(10)	(24)
Finance income	3	**(39)**	(19)	(39)
Non-cash finance costs	4	**26**	38	34
Share of loss / (profit) of associates and joint ventures	8			
- Bank		**45**	(5)	39
- Travel (includes income from recognition of put/call option)		**(13)**	7	(27)
- Other		**(1)**	(2)	(1)
Underlying profit before tax		**31**	63	81

* See general accounting policies section on page 22 for details of the restatement.

Condensed Consolidated Statement of Comprehensive Income

For the 26 weeks ended 2 July 2016

	26 weeks ended 2 July 2016 (unaudited)	26 weeks ended 4 July 2015 (unaudited)	52 weeks ended 2 January 2016 (audited)
	£m	£m	£m
Profit for the period	**11**	39	15
Other comprehensive income / (losses):			
Items that will never be reclassified to the income statement:			
Remeasurement gains / (losses) on employee pension schemes	**101**	(304)	105
IFRIC 14 pension onerous liability remeasurement	**(11)**	-	(19)
Related tax on items	**(17)**	62	(5)
	73	(242)	81
Items that are or may be reclassified to the income statement:			
Changes in available for sale assets	**11**	(10)	(9)
Share of other comprehensive losses from associates	**-**	(5)	-
	11	(15)	(9)
Other comprehensive income / (losses) for the period net of tax	**84**	(257)	72
Total comprehensive income for the period (all attributable to equity holders of the parent)	**95**	**(218)**	**87**

Condensed Consolidated Balance Sheet

As at 2 July 2016

	Notes	**As at 2 July 2016 (unaudited)** £m	As at 4 July 2015 (unaudited & restated*) £m	As at 2 January 2016 (audited) £m
Non-current assets				
Property, plant and equipment		**1,860**	1,967	1,965
Goodwill and intangible assets		**902**	926	948
Investment properties	13	**85**	95	87
Investments in associates and joint ventures	8	**239**	319	285
Investments in funeral plans	13	**866**	748	781
Investments from insurance activities		**641**	672	650
Reinsurance contracts		**65**	59	63
Derivatives		**77**	52	55
Pension assets	6	**1,517**	961	1,378
Trade and other receivables		**21**	23	23
Deferred tax assets		**204**	263	230
Reclaim Fund assets		**275**	70	73
Total non-current assets		**6,752**	6,155	6,538
Current assets				
Inventories and biological assets		**410**	427	445
Trade and other receivables		**655**	591	646
Cash and cash equivalents		**454**	538	405
Assets held for sale	7	**124**	35	-
Investments from insurance activities		**264**	253	241
Reinsurance contracts		**9**	17	6
Reclaim Fund assets		**299**	457	488
Total current assets		**2,215**	2,318	2,231
Total assets		**8,967**	8,473	8,769
Non-current liabilities				
Interest-bearing loans and borrowings	9	**1,089**	1,087	1,071
Trade and other payables		**1,062**	950	967
Derivatives		**-**	40	37
Provisions		**263**	346	352
Pension liabilities	6	**226**	234	227
Deferred tax liabilities		**356**	279	340
Insurance contracts		**482**	423	511
Reclaim Fund liabilities		**500**	453	487
Total non-current liabilities		**3,978**	3,812	3,992
Current liabilities				
Overdrafts		**4**	8	4
Interest-bearing loans and borrowings	9	**28**	23	22
Income tax payable		**-**	12	13
Trade and other payables		**1,566**	1,545	1,462
Provisions		**88**	138	87
Insurance contracts		**254**	288	235
Total current liabilities		**1,940**	2,014	1,823
Total liabilities		**5,918**	5,826	5,815
Equity				
Members' share capital		**72**	70	72
Retained earnings		**2,871**	2,483	2,787
Other reserves		**106**	94	95
Total equity		**3,049**	2,647	2,954
Total equity and liabilities		**8,967**	8,473	8,769

* See general accounting policies section on page 22 for details of the restatement.

Condensed Consolidated Statement of Changes in Equity

For the 26 weeks ended 2 July 2016 (unaudited)

	Members' share capital	Retained earnings	Other reserves	Total equity
	£m	£m	£m	£m
Balance at 2 January 2016	72	2,787	95	2,954
Profit for the period	-	11	-	11
Other comprehensive income:				
Remeasurement losses on employee pension schemes	-	101	-	101
Pace pension surplus attributable to non Group entities	-	(237)	-	(237)
Adjustment to pension surplus under IFRIC 14	-	237	-	237
IFRIC 14 pension onerous liability remeasurement	-	(11)	-	(11)
Gains less losses on available for sale assets	-	-	12	12
Available for sale cumulative gains transferred to the income statement	-	-	(1)	(1)
Share of other comprehensive income from associates	-	-	-	-
Tax on items taken directly to other comprehensive income	-	(17)	-	(17)
Total other comprehensive income / (expense)	-	73	11	84
Balance at 2 July 2016	72	2,871	106	3,049

For the 26 weeks ended 4 July 2015 (unaudited)

	Members' share capital	Retained earnings	Other reserves	Total equity
	£m	£m	£m	£m
Balance at 3 January 2015	70	2,691	104	2,865
Profit for the period	-	39	-	39
Other comprehensive income:				
Remeasurement losses on employee pension schemes	-	(304)	-	(304)
Pace pension surplus attributable to non Group entities	-	(171)	-	(171)
Adjustment to pension surplus under IFRIC 14	-	171	-	171
Available for sale cumulative gains transferred to the income statement	-	-	(10)	(10)
Share of other comprehensive income from associates	-	(5)	-	(5)
Tax on items taken directly to other comprehensive income	-	62	-	62
Total other comprehensive income / (expense)	-	(247)	(10)	(257)
Balance at 4 July 2015	70	2,483	94	2,647

Condensed Consolidated Statement of Changes in Equity (continued)

For the 52 weeks ended 3 January 2015 (audited)

	Members' share capital	Retained earnings	Other reserves	Total equity
	£m	£m	£m	£m
Balance at 3 January 2015	70	2,691	104	2,865
Profit for the period	-	15	-	15
Other comprehensive income:				
Remeasurement gains on employee pension schemes	-	105	-	105
Pace pension surplus attributable to non Group entities	-	(255)	-	(255)
Adjustment to pension surplus under IFRIC 14	-	255	-	255
IFRIC 14 pension onerous liability remeasurement	-	(19)	-	(19)
Gains less losses on available for sale assets	-	-	(6)	(6)
Available for sale cumulative gains transferred to the income statement	-	-	(3)	(3)
Tax on items taken directly to other comprehensive income	-	(5)	-	(5)
Total other comprehensive income / (expense)	-	81	(9)	72
Contributions by and distributions to members:				
Shares issued less shares withdrawn	2	-	-	2
Contributions by and distributions to members:	2	-	-	2
Balance at 2 January 2016	72	2,787	95	2,954

Condensed Consolidated Statement of Cash Flows

for the 26 weeks ended 2 July 2016

	Notes	**26 weeks ended 2 July 2016 (unaudited)**	26 weeks ended 4 July 2015 (unaudited & restated*)	52 weeks ended 2 January 2016 (audited)
		£m	£m	£m
Net cash from operating activities	10	**189**	242	283
Cash flows from investing activities				
Acquisition of property, plant and equipment		**(134)**	(144)	(297)
Proceeds from sale of property, plant and equipment		**37**	90	161
Purchase of intangible assets		**(13)**	-	(15)
Acquisition of businesses		**-**	-	(5)
Acquisition of investments in joint ventures and associates		**(2)**	-	(3)
Disposal of businesses, net of cash disposed		**-**	13	14
Dividends received from investments		**1**	6	6
Net cash (used in) investing activities		**(111)**	(35)	(139)
Cash flows from financing activities				
Interest paid on borrowings		**(33)**	(20)	(80)
Issue of corporate investor shares		**8**	8	4
Repayment of borrowings, net of derivatives		**(2)**	(50)	(50)
Issue of borrowings, net of derivatives		**-**	68	68
Finance leases repaid		**(2)**	(2)	(4)
Net cash (used in) / from financing activities		**(29)**	4	(62)
Net increase in cash and cash equivalents		**49**	211	82
Cash and cash equivalents at beginning of period		**401**	319	319
Cash and cash equivalents at end of period		**450**	530	401
Analysis of cash and cash equivalents				
Overdrafts per balance sheet		**(4)**	(8)	(4)
Cash and cash equivalents per balance sheet		**454**	538	405
		450	530	401

* See general accounting policies section on page 22 for details of the restatement.

Accounting policies and basis of preparation

These condensed consolidated interim financial statements of the Society for the period ended 2 July 2016 ("the interim financial statements") comprise the Society and its subsidiaries (together referred to as the "Group") and the Group's investments and joint ventures.

The audited consolidated financial statements ("the 2015 annual report") of the Group for the year ended 2 January 2016 are available upon request from the Society's registered office at 1 Angel Square, Manchester, M60 0AG.

The interim financial statements as at and for the 26 weeks ended 2 July 2016 are unaudited and do not constitute statutory accounts. They have been reviewed by the auditors and their report is set out on pages 14 and 15 of this statement.

Statement of compliance

These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed and adopted for use in the European Union, and the Disclosure and Transparency Rules (DTR) of the Financial Services Authority. They do not include all the statements required for full annual financial statements and should be read in conjunction with the 2015 annual report.

The comparative figures for the financial year ended 2 January 2016 presented within these financial statements are not the Society's statutory financial statements for that financial year. Those financial statements have been reported on by the Society's auditors. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters in which the auditors drew attention by way of emphasis without qualifying their report, and (iii) contained no statement that the Society did not keep appropriate accounting records.

These interim financial statements were approved by the Board of Directors on 22 September 2016.

Accounting estimates and judgements

The preparation of the interim financial statements requires management to make judgements, 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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In preparing these interim financial statements, the significant judgements and estimates made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied in the 2015 annual report.

Accounting policies

The accounting policies applied in preparing these interim financial statements are consistent with those described in the Group's 2015 annual report except for the following:

- monies received from customers in relation to funeral disbursements (third party costs) are no longer shown as equal and opposite values within revenue and cost of sale. Previously this treatment reflected the credit risk carried by Funeralcare, however, given the level of upfront deposits now taken in respect of these disbursements, the credit risk is no longer considered great enough to warrant them being shown in this way and instead they will be treated as a pass through cost. The comparative figures have been restated by £55m (HY: 2015) and £100m (FY: 2015).

The comparative figures presented within these financial statements for the financial year ended 2 January 2016 and the interim period ended 4 July 2015 are consistent with the 2015 annual report and 2015 interim report respectively, with the exception of the restatements noted below:

<u>Full year 2015 (52 weeks ended 2 January 2016) and half year 2015 (26 weeks ended 4 July 2015) comparatives:</u>

- certain central costs previously reported within costs from supporting functions as shown in the operating segments (note 1) are now reported within the businesses in line with a change in how such costs are allocated within our internal management reporting;

<u>Half year 2015 (26 weeks ended 4 July 2015) comparatives only:</u>

- revenue of £22m has been deducted from sales in Food and netted in cost of sales in the prior period. This relates to income received from suppliers for the Group hauling their products to the Group's depots and as such is more appropriately recorded as an adjustment to the cost of inventory. There is no impact on net assets.

- the restatement of the comparative period cashflow, balance sheet and net debt figures reflects adjustments to exclude £50m cash deposits held in trustee-administered bank accounts (which can only be utilised to meet liabilities in respect of funeral plans) from cash and to include them instead within investments in funeral plans. As this restatement is not material from a balance sheet perspective, a third balance sheet as required under IAS 1 has not been included.

- payments to pension schemes of £23m (related to deficit payments made by the Group) are now included within operating cashflows when they were previously shown in financing to better reflect their nature as an employee related expense.

- cash held in the Reclaim Fund of £453m is no longer shown in the cashflow statement as the cash is not available for use by the Group. Reclaim Fund cashflows have also been excluded from the reconciliation of operating profit to net cash flow used in operating activities (note 10).

- interest charges of £1m arising on the Financial Services Tier Two Notes debt are now shown within finance costs in the income statement. Previously these costs were included within operating expenses.

Standards, amendments and interpretations issued but not yet effective

Details of those standards that may impact the Group's accounts in future periods are given in the Group's 2015 annual report. The adoption of the following standards will or may have a material impact when adopted and Management are currently assessing the likely effect on the Group's accounts:

- IFRS 9 (Financial Instruments: Classification and Measurement) *
- IFRS 15 Revenue from Contracts with Customers *
- IFRS 16 Leases **

* Effective for annual periods beginning on or after 1 January 2018. ** Effective for annual periods beginning on or after 1 January 2019.

Going concern

In assessing the appropriateness of the going concern basis of preparation, the Directors have firstly considered the Trading Group, CBG and the General Insurance business separately, as they are independently funded. The Directors have then, taking the individual assessments into account, considered the overall going concern position of the Group.

The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and, in preparing the condensed consolidated interim financial information, have therefore continued to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

Trading Group

The Trading Group meets its working capital requirements through a number of separate funding facilities. Profitability and cash flow forecasts for the Trading Group, prepared for the period to September 2017 (the forecast period), and adjusted for reasonably possible sensitivities in relation to both trading performance and cash flow requirements, indicate that the Trading Group will have sufficient resources available within its current facilities to meet its working capital needs and repay its debts as they fall due.

Co-operative Banking Group (CBG)

Profitability and cash flow forecasts for CBG, prepared for the period to September 2017 (the forecast period), and adjusted for sensitivities considered to be reasonably possible in relation to both trading performance and cash flow requirements, indicate that CBG will have sufficient resources to meet its working capital needs, and to meet its obligations as they fall due.

General Insurance

The Group's insurance business has to comply with a number of regulatory capital requirements. Current forecasts show that the insurance business will be able to operate within its regulatory capital requirements for the foreseeable future.

Conclusion

After consideration of the factors set out above, and, after making all appropriate enquiries, the Directors have a reasonable expectation that the Group has access to adequate resources to enable it to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements.

Notes to the interim financial statements

1 Operating segments

26 weeks ended 2 July 2016 (unaudited)	**Revenue from external customers**	**Underlying segment operating profit (a)**	**One-off items (a) (i)**	**Property and business disposals (a) (ii)**	**Change in value of investment properties**	**Operating profit**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Food	**3,518**	**63**	**-**	**(2)**	**2**	**63**
Funeralcare	**164**	**42**	**-**	**20**	**-**	**62**
General Insurance	**208**	**11**	**(15)**	**-**	**-**	**(4)**
Other businesses (d)	**44**	**4**	**-**	**-**	**-**	**4**
Federal (e)	**765**	**-**	**-**	**-**	**-**	**-**
Costs from supporting functions	**-**	**(52)**	**(4)**	**3**	**-**	**(53)**
Total	**4,699**	**68**	**(19)**	**21**	**2**	**72**

26 weeks ended 4 July 2015 (unaudited & restated) (c)	Revenue from external customers	Underlying segment operating profit (a)	One-off items (a) (i)	Property and business disposals (a) (ii)	Change in value of investment properties	Operating profit
	£m	£m	£m	£m	£m	£m
Food	3,463	88	-	10	10	108
Funeralcare	162	47	-	-	-	47
General Insurance	159	2	(17)	-	-	(15)
Other businesses (d)	46	3	-	-	-	3
Federal (e)	731	-	-	-	-	-
Costs from supporting functions	-	(37)	(9)	(2)	-	(48)
Total	4,561	103	(26)	8	10	95

52 weeks ended 2 January 2016 (audited & restated) (c)	Revenue from external customers	Underlying segment operating profit (a)	One-off items (a) (i)	Property and business disposals (a) (ii)	Change in value of investment properties	Operating profit
	£m	£m	£m	£m	£m	£m
Food	6,958	186	-	(14)	24	196
Funeralcare	299	69	-	-	-	69
General Insurance	343	(13)	(47)	-	-	(60)
Other businesses (d)	97	8	-	-	-	8
Federal (e)	1,504	-	-	-	-	-
Costs from supporting functions	-	(86)	(15)	-	-	(101)
Total	9,201	164	(62)	(14)	24	112

1 Operating segments continued

a) Underlying segment operating profit is a non-GAAP measure of segment operating profit before the impact of property and business disposals (including individual store impairments), the change in the value of investment properties, profits / losses from associates / joint ventures and one-off costs. The difference between underlying segment operating profit and operating profit includes:

i) One-off items of £19m (2015: £26m) which principally relates to £15m (2015: £17m) of replatforming costs within the General Insurance business and £4m (2015: £9m) of restructuring related costs (included in Costs from supporting functions) incurred in relation to the establishment of the Target Operating Model for the Group's support centre.

ii) Gains on property and business disposals includes £20m in Funerals following the disposal of three crematoria. The net loss in Food of £2m includes a £16m gain that has been recognised following the sale of Somerfield Stores Limited (a 100% subsidiary of the Group). The transaction includes the release of £72m of onerous lease provisions off-set by £56m in relation to the recognition of a dowry, transaction costs and net book value of the stores sold and associated tax impact. A net loss of £18m has also been recorded in relation to other property disposals in Food comprising proceeds of £14m, net book value of assets sold of £18m and additional provisions recognised on disposal of £14m. See table below for further details.

b) Transactions between operating segments excluded in the above analysis are £2m (2015: £3m) sales of Co-op Electrical and £1m (2015: £1m) sales of Co-operative Legal Services.

c) Certain central costs previously reported within costs from supporting functions are now reported within the businesses in line with a change in how such costs are allocated within our internal management reporting. See general accounting policies section on page 7 for details of the restatement.

d) Other businesses comprise Legal Services (part of our Consumer Services Division) and Co-operative Electricals.

e) Federal relates to the activities of a joint buying group that is operated by the Group for other independent co-operative societies. This is run on a cost recovery basis and therefore no profit is derived from its activities.

f) A reconciliation between underlying segment operating profit and profit before tax is provided below:

	Note	**26 weeks ended 2 July 2016 (unaudited) £m**	26 weeks ended 4 July 2015 (unaudited & restated*) £m	52 weeks ended 2 January 2016 (audited) £m
Underlying segment operating profit		**68**	103	164
Underlying interest payable	4	**(37)**	(40)	(83)
Underlying profit before tax		**31**	63	81
One-off items (see above)		**(19)**	(26)	(62)
Profits from property and business disposals		**21**	8	(14)
Change in value of investment properties		**2**	10	24
Finance income	3	**39**	19	39
Non-cash finance costs	4	**(26)**	(38)	(34)
Share of loss of associates and joint ventures	8	**(31)**	-	(11)
Profit before tax		**17**	36	23

* See general accounting policies section on page 22 for details of the restatement.

Notes to the interim financial statements continued

1 Operating segments continued

Profits / (losses) from property and business disposals	**26 weeks ended 2 July 2016 (unaudited)**		26 weeks ended 4 July 2015 (unaudited & restated*)		52 weeks ended 2 January 2016 (audited)	
	£m	**£m**	£m	£m	£m	£m
Crematoria sale						
- proceeds	**30**		-		-	
- less NBV written off	**(10)**		-		-	
		20		-		-
Sale of Somerfield Stores Ltd						
- expenses	**(7)**		-		-	
- payable recognised	**(39)**		-		-	
- net onerous lease provision release and NBV written off	**62**		-		-	
		16		-		-
Sale of other land and buildings						
- proceeds	**14**		90		161	
- less NBV written off	**(18)**		(68)		(137)	
- provisions recognised on closure	**(11)**		(9)		(16)	
		(15)		13		8
Impairment of property, plant and equipment		**(3)**		(5)		(22)
CFSMS retirement liability derecognised		**3**		-		-
Profit / (loss) on disposal		**21**		8		(14)

2 Supplier income

Supplier Income	**26 weeks ended 2 July 2016 (unaudited)**	26 weeks ended 4 July 2015 (unaudited)	52 weeks ended 2 January 2016 (audited)
	£m	£m	£m
Long term agreements	**69**	67	138
Bonus income	**61**	64	160
Promotional income	**178**	163	337
Total supplier income	**308**	294	635

	26 weeks ended 2 July 2016 (unaudited)	26 weeks ended 4 July 2015 (unaudited)	52 weeks ended 2 January 2016 (audited)
Percentage of Food's Cost of Sales before deducting Supplier Income	**%**	%	%
Long term agreements	**2.1%**	2.1%	2.1%
Bonus income	**1.8%**	2.0%	2.4%
Promotional income	**5.3%**	5.0%	5.1%

2 Supplier income continued

Supplier income is recognised as a deduction from cost of sales on an accruals basis, based on the expected entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The accrued incentives, rebates and discounts receivable at year end are included within trade and other receivables. Where amounts received are in the expectation of future business, these are recognised in the income statement in line with that future business. There are three main types of income:

1. Long term agreements: These relate largely to volumetric rebates based on agreements with suppliers. They include overriders, advertising allowances and targeted income. The income accrued is based on the joint buying group's latest forecast volumes and the latest contract agreed with the supplier. Income is not recognised until confirmation of the agreement has been received from the supplier.

2. Bonus income: These are typically unique payments made by the supplier and are not based on volume. They include payments for marketing support, range promotion and product development. These amounts are recognised when the income is earned and confirmed by suppliers. An element of the income is deferred if it relates to a future period.

3. Promotional income: Volumetric rebates relating to promotional activity agreed with the supplier. These are retrospective rebates based on sales volumes or purchased volumes.

Trade receivables includes £86m of supplier income that is due to Food from suppliers. As at 23 September 2016 £85m of the current period balance had been invoiced and settled.

3 Finance income

	26 weeks ended 2 July 2016 (unaudited) £m	26 weeks ended 4 July 2015 (unaudited) £m	52 weeks ended 2 January 2016 (audited) £m
Net pension finance income	**22**	19	39
Fair value movement on interest rate swaps	**17**	-	-
Total finance income	**39**	19	39

4 Finance costs

	26 weeks ended 2 July 2016 (unaudited) £m	26 weeks ended 4 July 2015 (unaudited) £m	52 weeks ended 2 January 2016 (audited) £m
Loans repayable within five years	**(12)**	(1)	(14)
Loans repayable wholly or in part after five years	**(25)**	(39)	(69)
Underlying interest payable	**(37)**	(40)	(83)
Accelerated fee amortisation due to the early repayment of debt	**-**	-	(2)
Fair value movement on quoted debt	**(18)**	(24)	(14)
Fair value movement on interest rate swaps	**-**	(6)	(1)
Discount unwind of payables and provisions	**(8)**	(8)	(17)
Non-cash finance costs	**(26)**	(38)	(34)
Total finance costs	**(63)**	(78)	(117)

Fair value movements on forward currency transactions were immaterial in the current and prior period.

Notes to the interim financial statements continued

5 Taxation

The tax charge of £6m and effective tax rate of 35% (2015: 9%) relates to:

1. A review of the effective tax rate for the full year has been applied to the underlying trading results - this increases the expected tax charge by £5m.
2. The dowry payment and net book value write off arising on the sale of Somerfield Stores Limited are not tax deductible – this increases the tax charge by £9m.
3. The profits arising on the sale of our crematoria business are not taxable due to the availability of Substantial Shareholdings Exemption – this reduces our tax charge by £4m.
4. HMRC concluded on historic enquiries in the first half of the year, as such the uncertain tax risk provision for these enquiries has been released in full - this reduces the tax charge by £7m.

A charge of £17m has also been posted to other comprehensive income in respect of the actuarial movement arising on the pension fund. A write off of the deferred tax asset of £6m held by Somerfield Stores Limited has also been charged to the profit on disposal of this business. Together with the income statement movement of £4m the net deferred tax liability of the Group at half year is £152m (2015: £110m) and the corporation tax creditor has reduced to £nil (2015 : £13m).

The Group does not expect to be tax-paying in respect of their full year results due to the availability of brought forward tax losses and allowances.

6 Pensions

The Group operates a number of DB pension schemes, the assets of which are held in separate trustee-administered funds for the benefit of its employees and former employees. The Group also provides pension benefits through defined contribution (DC) arrangements.

The main DB pension scheme for the Group is the Pace scheme which closed to future service accrual on 28 October 2015. The actuarial valuations for the Pace scheme have been updated to 2 July 2016 in accordance with IAS 19. All other schemes have only been adjusted for interest and cash movements. On 30 April 2015, the Lothian, Sheffield and Brixham pension schemes and the majority of the Leeds pension scheme transferred into the Pace scheme.

	2 July 2016	4 July 2015	2 January 2016
	(unaudited)	(unaudited)	(audited)
The principal assumptions used to determine the liabilities of the Pace pension scheme were:			
Discount rate	**2.80%**	3.80%	3.80%
Inflation rate	**3.00%**	3.50%	3.30%
Future pension increases where capped at 5.0% pa - Retail Price Index	**3.00%**	3.50%	3.30%
Future pension increases where capped at 5.0% pa - Consumer Price Index	**2.00%**	2.50%	2.30%
Future pension increases where capped at 2.5% pa - Retail Price Index	**2.50%**	2.50%	2.50%
Future pension increases where capped at 2.5% pa - Consumer Price Index	**2.00%**	2.50%	2.30%

	2 July 2016	4 July 2015	2 January 2016
	(unaudited)	(unaudited)	(audited)
	£m	£m	£m
Pension schemes in surplus	**1,517**	961	1,378
Pension schemes in deficit	**(226)**	(234)	(227)
Closing net retirement benefit	**1,291**	727	1,151

Notes to the interim financial statements continued

6 Pensions continued

	2 July 2016 (unaudited) £m	4 July 2015 (unaudited) £m	2 January 2016 (audited) £m
Opening net retirement benefit attributable to Group	**915**	763	763
Derecognition of Britannia EFRBS liabilities	**3**	-	-
Current service cost and admin expenses	**(3)**	(31)	(54)
Past service cost	**-**	-	(1)
Net finance income	**18**	15	30
Contributions by employer	**25**	48	80
Remeasurement gains / (losses)	**82**	(239)	97
Closing net retirement benefit attributable to Group	**1,040**	556	915
IFRIC 14 adjustments	**251**	171	236
Closing net retirement benefit	**1,291**	727	1,151

Since December 2013, the Pace scheme has been a multi-employer scheme. The reliable basis for splitting the scheme is estimated based on the Bank's contribution to deficit recovery payments which is 20% (2015: 20%). Pace still shows a balance sheet surplus, however as the Bank is not entitled to a share of any refund of the surplus, the remeasurement (losses) include an adjustment to reduce the Bank's share to zero, which excludes the £280m (£171m as at 4 July 2015) portion of the scheme no longer attributable to the Group, but then adds this back based on the principles of IFRIC 14 because only the Group is entitled to any refund of the surplus of the scheme. Also included within the IFRIC 14 adjustments is £29m (2015: £nil) of onerous pension liabilities where certain schemes' deficits are lower than the future pension contributions.

7 Assets and liabilities held for sale

The majority of the assets held for sale relate to 298 food stores that will be sold to McColls Retail Group plc in the second half of the year pending regulatory approval from the Competition and Markets Authority. Assets are recorded at their current carrying value unless this exceeds any expected net proceeds of sale in which case the assets are impaired. As the proceeds are expected to be above carrying value, no impairment has been incurred.

	2 July 2016 (unaudited) £m	4 July 2015 (unaudited) £m	2 January 2016 (audited) £m
Assets held for sale	**124**	35	-
Liabilities held for sale	**-**	-	-

Assets classified as held for sale

	2 July 2016 (unaudited) £m	4 July 2015 (unaudited) £m	2 January 2016 (audited) £m
Property, plant and equipment	**63**	34	-
Intangible assets	**61**	1	-
	124	35	-

Notes to the interim financial statements continued

8 Investments in associates and joint ventures

The Group's share of losses in relation to associates and joint ventures for the period was £31m (26 weeks ended 4 July 2015: £nil). A breakdown of the investment and income is disclosed below:

	26 weeks ended 2 July 2016 (unaudited)		26 weeks ended 4 July 2015 (unaudited)		52 weeks ended 2 January 2016 (audited)	
	Income	**Investments**	Income	Investments	Income	Investments
	£m	**£m**	£m	£m	£m	£m
The Co-operative Bank plc (Bank)	**(45)**	**140**	5	224	(39)	185
TCCT Holdings UK Limited (Travel)	**(3)**	**34**	(7)	36	(5)	38
NOMA	**-**	**35**	1	31	1	34
Other investments (including windfarms)	**1**	**30**	1	28	-	28
	(47)	**239**	-	319	(43)	285
Income from Travel put/call option	**16**	**-**	-	-	-	-
Income from Travel dividend guarantee	**-**	**-**	-	-	32	-
Total	**(31)**	**239**	-	319	(11)	285

Bank
The Group has impaired its investment in the Bank by £45m to £140m at the half year (period to 4 July 2015: £nil). The impairment is due to a number of factors including the UK's decision to leave the European Union which is likely to lead to a lower for longer interest rate environment. The change in value is very judgemental and is in line with a general fall in share prices across the banking sector.

Travel
The Group has a guaranteed put / call option with Thomas Cook plc which allows the Group to sell its investment in Travel at the higher of £50m or 4 times the associate's EBITDA. Given the heightened risks in this industry following recent terrorist attacks and the fall in value of the British pound, the fair value of the investment is now deemed to be £16m lower than the £50m guarantee. At the previous year end and half year, the Group did not ascribe any value to the put / call option as the value of the guarantee and the investment was deemed to be broadly the same. The Group now holds £82m of assets in relation to the joint venture at half year being the £34m investment (4 July 2015: £36m), £16m put / call option (4 July 2015: £nil) and the £32m dividend guarantee debtor (4 July 2015: £nil).

The movement in investments in associates, joint ventures and other investments during the period are as follows:

	26 weeks ended 2 July 2016 (unaudited)	26 weeks ended 4 July 2015 (unaudited)	52 weeks ended 2 January 2016 (audited)
	£m	£m	£m
At beginning of period	**285**	316	316
Addition of associates	**2**	-	3
Transfer from investment property	**-**	14	15
Share of losses	**(47)**	-	(43)
Share of other comprehensive loss	**-**	(5)	-
Dividends received	**(1)**	(6)	(6)
At end of period	**239**	319	285

Contingent liabilities and commitments of associates and joint ventures

Details of contingent liabilities and commitments in relation to The Co-operative Bank plc at 2 January 2016 were disclosed in the 2015 annual report. These included the following key areas: Indemnification agreement with CFSMS, Conduct and Consumer Credit Act issues; proposed sale of the Bank's share in Visa Europe Limited (VE), regulatory and other investigations; legal proceedings; mortgage securitisation representations and warranties; pensions; the tax treatment of separation and Warwick Finance One and Two mortgage securitisation representations and warranties. The items disclosed remain broadly unchanged except for the sale of the Bank's share in VE which completed on 21 June 2016. In relation to this, the existing Loss Sharing Agreement, as disclosed in the 2015 Annual Report, is not affected by the replacement of the earn-out with increased cash consideration that was agreed prior to completion.

9 Interest-bearing loans and borrowings

For a breakdown of IFRS 13 level hierarchies in relation to these borrowings, see note 13.

	As at 2 July 2016 (unaudited)	As at 4 July 2015 (unaudited)	As at 2 January 2016 (audited)
	£m	£m	£m
Non-current liabilities:			
£450m 6 7⁄8% Eurobond Notes due 2020*	**490**	484	477
£350m 7 1⁄2 % Eurobond Notes due 2026*	**381**	380	376
£21m 8 7⁄8% First Mortgage Debenture Stock 2018*	**21**	21	21
£109m 11% final repayment subordinated notes due 2025	**109**	109	109
£19m Instalment repayment notes (final payment 2025)	**17**	18	17
Corporate investor shares	**1**	2	1
Non-current portion of finance lease liabilities	**2**	5	2
Trading Group interest bearing loans and borrowings	**1,021**	1,019	1,003
£70m 12% Financial Services Callable Dated Deferrable Tier Two Notes due 2025	**68**	68	68
Total Group interest bearing loans and borrowings	**1,089**	1,087	1,071

	As at 2 July 2016 (unaudited)	As at 4 July 2015 (unaudited)	As at 2 January 2016 (audited)
	£m	£m	£m
Current liabilities:			
Instalment repayment notes (final payment 2025)	**1**	1	1
Corporate investor shares	**24**	19	16
Current portion of finance lease liabilities	**1**	1	3
Other unsecured loans	**2**	2	2
Total Group interest bearing loans and borrowings	**28**	23	22

* These drawn-down loan commitments are designated as financial liabilities at fair value through the income statement. All of the other liabilities, except the finance lease liability, are classified as loans and receivables in accordance with IAS 39.

Notes to the interim financial statements continued

9 Interest-bearing loans and borrowings continued

For 26 weeks ended 2 July 2016 (unaudited)

	Start of period	Non cash movements	Cash flow	Movement in corporate investor shares	End of period
	£m	£m	£m	£m	£m
Interest bearing loans and borrowings:					
- current	(22)	2	-	(8)	(28)
- non-current	(1,071)	(18)	-	-	(1,089)
Total Debt	(1,093)	(16)	-	(8)	(1,117)
Group cash:					
- Cash (per balance sheet)	405	-	49	-	454
- Overdraft (per balance sheet)	(4)	-	-	-	(4)
Group Net Debt	(692)	(16)	49	(8)	(667)
Comprised of:					
Trading Group Debt	(1,025)	(16)	-	(8)	(1,049)
Trading Group Cash	331	-	38	-	369
Trading Group Net Debt	(694)	(16)	38	(8)	(680)
CISGIL debt and overdrafts	(72)	-	-	-	(72)
CBG cash and overdrafts	74	-	11	-	85
Group Net debt	(692)	(16)	49	(8)	(667)

For 26 weeks ended 4 July 2015 (unaudited & restated*)

	Start of period	Non cash movements	Cash flow	Movement in corporate investor shares	End of period
	£m	£m	£m	£m	£m
Interest bearing loans and borrowings:					
- current	(69)	4	50	(8)	(23)
- non-current	(993)	(26)	(68)	-	(1,087)
Total Debt	(1,062)	(22)	(18)	(8)	(1,110)
Group cash:					
- Cash (per balance sheet)	327	-	211	-	538
- Overdraft (per balance sheet)	(8)	-	-	-	(8)
Group Net Debt	(743)	(22)	193	(8)	(580)
Comprised of:					
Trading Group Debt	(1,062)	(22)	50	(8)	(1,042)
Trading Group Cash	247	-	225	-	472
Trading Group Net Debt	(815)	(22)	275	(8)	(570)
CISGIL debt and overdrafts	(8)	-	(68)	-	(76)
CBG cash and overdrafts	80	-	(14)	-	66
Group Net debt	(743)	(22)	193	(8)	(580)

* See general accounting policies section on page 22 for details of the restatement.

Notes to the interim financial statements continued

9 Interest-bearing loans and borrowings continued

For 52 weeks ended 2 January 2016 (audited)

	Start of period	Non cash movements	Cash flow	Movement in corporate investor shares	End of period
	£m	£m	£m	£m	£m
Interest bearing loans and borrowings:					
- current	(69)	2	50	(5)	(22)
- non current	(993)	(11)	(68)	1	(1,071)
Total Debt	(1,062)	(9)	(18)	(4)	(1,093)
Group cash:					
- Group cash (per balance sheet)	327	-	78	-	405
- Overdraft (per balance sheet)	(8)	-	4	-	(4)
Group Net Debt	(743)	(9)	64	(4)	(692)
Comprised of:					
Trading Group Debt	(1,062)	(9)	50	(4)	(1,025)
Trading Group Cash	247	-	84	-	331
Trading Group Net Debt	(815)	(9)	134	(4)	(694)
CISGIL debt and overdrafts	(8)	-	(64)	-	(72)
CBG cash and overdrafts	80	-	(6)	-	74
Group Net debt	(743)	(9)	64	(4)	(692)

10 Reconciliation of operating profit to net cash flow from operating activities

	26 weeks ended 2 July 2016 (unaudited)	26 weeks ended 4 July 2015 (unaudited & restated*)	52 weeks ended 2 January 2016 (audited)
	£m	£m	£m
Operating profit	**72**	95	112
Depreciation and amortisation charges (excluding deferred acquisition costs)	**130**	131	263
Non-current asset impairments	**3**	5	27
Profit on disposal of businesses and non-current assets	**(24)**	(23)	(13)
Change in value of investment properties	**(2)**	(10)	(24)
Retirement benefit obligations	**(27)**	(23)	(38)
Decrease / (increase) in inventories	**35**	7	(11)
(Increase) in receivables	**(110)**	(99)	(130)
Increase in payables and provisions	**126**	206	98
Net cash flow from Trading activities before movements in Financial Services	**203**	289	284
Fair value through profit and loss movement	**(23)**	(18)	(43)
Assets available for sale movement	**9**	4	66
Movement in deferred acquisition costs	**(3)**	(2)	(8)
Reinsurance assets	**(6)**	(4)	3
Loan receivables at amortised cost	**(2)**	1	(3)
Insurance and other receivables	**14**	(36)	(68)
Insurance and participation contract provisions	**(8)**	(27)	15
Insurance and other payables	**5**	35	37
Movements in assets and liabilities in Financial Services	**(14)**	(47)	(1)
Net cash flow from operating activities	**189**	242	283

* See general accounting policies section on page 22 for details of the restatement.

Notes to the interim financial statements continued

11 Commitments and contingent liabilities

a) Capital expenditure committed by the Group at 2 July 2016 was £nil (4 July 2015: £nil).

b) There are no significant changes to the contingent liabilities of the Group as disclosed in the 2015 annual report.

12 Related party transactions and balances

The Group's significant related party transactions are those transactions undertaken with its associate the Co-operative Bank plc, as disclosed in the 2015 annual report. Significant changes to those relationships and transactions since the year end are as follows:

Britannia Supplementary Pension & Life Assurance Plan
On 23 June 2016, the Bank entered into a Deed of Substitution, Removal and Appointment of Trustee and Cessation of Participation relating to the Britannia Supplementary Pension & Life Assurance Plan (BSPLAP) with CFS Management Services Limited (CFSMS, a subsidiary of the Group) and the Group. Under the Deed, CFSMS was released from its obligations and liabilities as the sole sponsor, principal employer and trustee of the BSPLAP and the Bank replaced it as sole sponsor, principal employer and trustee in BSPLAP.

Master Services Agreement (MSA)
The Group provide network services to the Bank under the MSA. A contract variation to extend the provision of these services to the end of 2017 was signed on 30 June 2016.

IT services
The Group and CFSMS currently provide IT services to the Bank under the IT Master Services Agreement (ITSA). The original agreement was signed on 5 July 2012 and updated on 22 May 2013. As part of IT separation from the Group a number of services have now been repatriated successfully back to the Bank. This required a number of amendments to the ITSA to reflect the current operating model. Further incremental amendments will be required as the IT separation programmes repatriate further services from the Group to the Bank's future service providers.

Estates Separation
The Group currently provide estates services to the Bank under the MSA for Professional Services. As part of the separation process, a number of property and facility management services have been successfully repatriated back to the Bank in H1 2016. Property and facilities management services are now provided by separate third party service providers. Further ancillary estates support services are due to be repatriated to the Bank as the estates separation programme repatriates further services from the Group to the Bank's future service providers.

The following balances are outstanding with the Bank for the period ends in which it has been an associate:

	2 July 2016 (unaudited) £m	4 July 2015 (unaudited) £m	2 January 2016 (audited) £m
Loans	**-**	(1)	(1)
Intercompany assets	**-**	113	6
Bank balance / (overdraft)	**98**	208	105
Intercompany liabilities	**(154)**	(186)	(156)

Notes to the interim financial statements continued

13 Fair values of financial assets and financial liabilities

Fair values of the Trading Group recognised in the balance sheet

The following table provides an analysis of the financial assets and liabilities of the Trading Group that are recognised at fair value. These are grouped into three levels based on the following valuation techniques:

- Level 1 - quoted market prices in an active market
- Level 2 - valuation techniques using observable inputs
- Level 3 - valuation techniques using unobservable inputs

	2 July 2016 (unaudited)			4 July 2015 (unaudited & restated*)			2 January 2016 (audited)		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Financial assets									
Investments in funeral plans	**-**	**-**	**866**	-	-	748	-	-	781
Derivatives									
Assets	**-**	**61**	**16**	-	52	-	-	55	-
Liabilities	**-**	**-**	**-**	-	(40)	-	-	(37)	-
Non-derivative financial liabilities									
Unsecured bond issue:									
- Fixed-rate sterling eurobond	**(871)**	**-**	**-**	(864)	-	-	(853)	-	-

There were no transfers between Levels 1 and 2 during the period and no transfers into and out of Level 3 fair value measurements.

For other financial assets and liabilities of the Trading Group including cash, trade and other receivables / payables then the notional amount is deemed to reflect the fair value.

Basis of valuation of Level 1 financial liabilities:

Eurobonds - this debt is fair valued at each period with the fair value movement going through the income statement. This is because the Group has used interest rate swaps to hedge the impact in movements in the interest rate and the movement in the fair value of the quoted debt is partially offset by the fair value movement in the interest rate swaps (noted below).

Basis of valuation of Level 2 financial assets and liabilities:

Derivatives - forward exchange contracts, such as the Group's interest rate swaps, are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps, broker quotes are used. Those quotes are back-tested using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market-related data at the balance sheet date.

Basis of valuation of Level 3 financial assets:

Investments in funeral plans - the Group holds investments in respect of funeral plan policies which are invested in either Individual Whole of Life Policies, Trusts or life assurance products. At the point of sale both the initial plan investment and the liability for the funeral delivery are recorded at the plan value less the revenue recognised on sale (in accordance with IAS 18). On future measurement, the plan investment is recorded at fair value through profit and loss. An analysis of the movement and reconciliation between the opening and closing balance is shown in the table overleaf.

Derivatives - the £16m balance noted under level 3 relates to the put / call option in the Travel investment (see note 8).

Notes to the interim financial statements continued

13 Fair values of financial assets and financial liabilities continued

Funeral Plan Investments	2 July 2016 (unaudited)	4 July 2015 (unaudited & restated*)	2 January 2016 (audited)
	£m	£m	£m
At start of period	781	661	661
New plan purchases	92	54	115
Plans redeemed or cancelled	(30)	(31)	(60)
Interest and bonus applied	23	64	65
At end of period	866	748	781

* See general accounting policies section on page 22 for details of the restatement.

Non-financial assets held at fair value

Investment properties - the valuation has been carried out by a number of external chartered surveyors: CBRE and Smiths Gore; as well as in-house valuers, on the basis of open market value in accordance with the RICS Appraisal and Valuation Manual.

Investment properties	2 July 2016 (unaudited)	4 July 2015 (unaudited)	2 January 2016 (audited)
	£m	£m	£m
At start of period	87	99	99
Additions	1	2	3
Disposals	(5)	(3)	(26)
Transfers from property, plant and equipment	-	1	2
Transfers to investments in joint ventures	-	(14)	(15)
Revaluation gain recognised in income statement	2	10	24
At end of period	85	95	87

Fair values of General Insurance recognised in the balance sheet

Based upon guidance issued by The Committee of European Securities Regulators (CESR), CISGIL classifies debt securities in Level 1 only if it can be demonstrated on an individual security by security basis that these are quoted in an active market, i.e. that the price quotes obtained are representative of actual trades in the market (through obtaining binding quotes or through corroboration to published market prices). Pricing providers can not guarantee that the prices they provide are based on actual trades in the market. Therefore all of the corporate bonds are classified as Level 2.

	2 July 2016 (unaudited)			4 July 2015 (unaudited)			2 January 2016 (audited)		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Financial assets at fair value through income or expense	-	222	-	-	174	-	-	199	-
Available for sale assets	-	683	-	-	751	-	-	692	-
Liabilities									
Other borrowed funds	-	68	-	-	68	-	-	71	-

There were no transfers between Levels 1 and 2 during the period and no transfers into and out of Level 3 fair value measurements.