CIS General Insurance Limited
6 April 2017

2016 Annual Report & Accounts

CIS General Insurance Limited announces the following document has today been submitted to the National Storage Mechanism and will shortly be available for inspection at www.morningstar.co.uk/uk/NSM:

- Annual Report and Accounts for the year ended 31 December 2016

Co-operative Group Limited ('Group'), the parent entity of CIS General Insurance Limited, has today also announced its results for the 52 weeks ended 31 December 2016. A copy of the Group announcement, which includes references to the performance of CIS General Insurance Limited ('Co-op Insurance') is provided below.

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Annual results for The Co-op Group for the 52 weeks ended 31 December 2016

CO-OP MEMBERSHIP JUMPS 18% AS REVENUE AND MARKET SHARE GROWS

- **Active membership hits 4m at year end; further 350,000 members already recruited in 2017**
- **Unique 5 +1 reward scheme generates £19m benefit for members and their communities in just four months from launch**
- **Group revenues up 3% to £9.5bn, with Food, Funeralcare and Insurance all delivering strong levels of growth**
- **Operating profit up 32%, reflecting good performance of core businesses and gains on disposals**
- **Group records pre-tax loss at a statutory level reflecting prudent valuation of minority shareholding in The Co-operative Bank**

Group highlights:

- Entering final phase of Co-op Rebuild, Group delivers results in line with plan, growing sales, market share and membership
- Revenues increased by 3% to £9.5bn (2015: £9.2bn)
  - Food like-for-like*** sales rose 3.5%, driven by core convenience business, as Food continued to outperform the market
  - Funeralcare revenues grew by 3% and market share increases for first time in five years, driven by move to make funerals more affordable and 69% increase in sales of pre-paid funeral plans
  - Insurance delivered strong sales, up 28%, based on motor premium inflation, improved pricing and distribution capabilities
- Profits in line with plan on continued Rebuild investment, colleague pay increases and price cuts for consumers:
  - Operating profit of £148m (2015: £112m), driven by £20m profit on disposals, largely reflecting the sale of our crematoria, and lower restructuring costs

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    - Underlying profit before tax** of £59m (2015: £81m), down due to increased Rebuild investment
    - Loss before tax of £132m (2015: £23m profit), reflecting £74m increase in our finance costs due to changes in the value of our bonds and writedown in carrying value of 20% shareholding in The Co-operative Bank, offset in part by one-off gains. Based on volatility caused by ongoing sales process at Bank, adoption of prudent valuation of Bank shareholding at £Nil (2015: £185m)
      Valuation has no impact on Rebuild investment plans
- Successful rebranding and launch of new member benefits in September, offering 5% back on Co-op branded products and 1% given to local causes:
    - More than 600 Food stores and 200 Funeral homes rebranded
    - The original target of recruiting 1m members by the end of 2018 significantly accelerated and now due to be reached by end 2017
    - Enhanced use of digital technology for member interactions
    - Members now account for 31% of Food sales as at 31 March 2017, up from 20% before launch of membership scheme
- Championing a better way of doing business
    - Announced commitment to make 80% of packaging recyclable by 2020
    - Co-op campaigns to tackle loneliness with £5.5m raised for British Red Cross to support work to reconnect 12,500 people with their communities
- As planned, net debt is at £885m which is within expected levels; sale of travel joint-venture with Thomas Cook agreed and will raise £82m plus interest in 2017

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

“This was an exceptional year for the Co-op and these results show the success of all the work to rebuild. We’ve invested in our brand, our businesses and our colleagues and now we can clearly see the benefits – a big jump in membership, better sales and increasing market share. The Co-op is now better for members, better for colleagues and better for communities up and down the UK.

“This investment was made in a disciplined fashion and within our agreed debt profile. All of this was achieved while staying true to our purpose, as evidenced by the millions we are paying out to local causes.”

Steve Murrells, Group Chief Executive of the Co-op, said:

“We’ve made great progress in rebuilding our Co-op, with all our businesses delivering strong performances. While much remains to be done, our Rebuild plans have really started to deliver value for our customers, our members and their communities. That is exactly what the Co-op should be doing.

“Against this backdrop, 2017 sees us turning our attention to the next phase of our development. Our ambition will remain the same – championing a better way of doing business in communities up and down the country. We will continue to take our existing businesses forward and ensure they are ready for the digital age, but we will also look wider than our current markets. We are exploring how we can enter markets that are not serving people well and challenging existing providers. To do that we are thinking again like the original Rochdale Pioneers. They were true pioneers in every sense of the word – disruptors in markets and agitators for change. There’s never been a more exciting time in the Co-op’s history and we are confident that we’ll continue to thrive.”

Summary of performance of largest business areas

Co-op Food

Sales	Total sales up 1% at £7.1bn; like-for-like sales up 3.5%
Operating Profit	Up 4% to £203m (2015: £196m)

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Underlying Operating Profit * Down 2% to £182m (2015: £186m)

We continued to deliver against our strategy to make better food available to people in the places they want to shop, as we aim to be the UK's leading convenience food retailer. More people are coming to our stores and they're shopping more often. Our total sales were £7.1bn in 2016 (up from £7.0bn in 2015) while like-for-like sales rose by 3.5%. We enjoyed being the fastest growing food retailer excluding the discount supermarkets on a like-for-like basis.

We invested in refitting stores, increasing colleague pay, improving our infrastructure and strengthening our food range, especially local British produce. Even after making such an exceptional investment for our future competitiveness and prosperity, underlying operating profit was only slightly down on last year at £182m (£186m in 2015).

We're implementing our strategy of focusing on convenience stores. In 2016, we opened 112 new stores and refitted 155 stores with our latest format. We also rebranded a further 607. We're focusing on the right size of store to give customers the best convenience shopping experience, and so we sold or closed 141 stores that didn't fit with this ambition. By the end of 2016 we had 2,774 stores, a little less than the 2,803 at the end of 2015. We also agreed the sale of 298 stores to McColl's Retail Group which started to transfer across in early 2017. It's far more enjoyable to shop at the Co-op now, after we spent £88m on new stores and £85m on refits. We're also working behind the scenes to transform our logistics and store operations. Our shops are getting simpler and we're improving how we transport goods to them.

Turning to the food we sell, it's getting tastier and healthier all the time. For instance, in 2016 we relaunched our 'Irresistible' luxury range, with 2,500 new or improved products.

In 2014, we promised to double the number of local suppliers by the end of 2017. In line with this, we continued sourcing from local farms and businesses, and we launched a new small business charter. We also awarded contracts to a record number of micro-breweries. We're on target to fulfil our local supplier promise.

We know food provenance really matters to our customers and so have committed to selling only British meat by May 2017. This will make the Co-op the only major food retailer to stock 100% own-brand fresh British beef, chicken, pork, lamb, bacon and turkey.

Co-op Funeralcare

Sales	Total sales up 3% to £307m
Operating Profit	Up 43% to £99m (2015: £69m)
Underlying Operating Profit *	Flat at £69m

Revenues in our Funeralcare business rose 3% to £307m (2015: £299m) in spite of a small decline in the death rate and our moves to cut prices. We grew market share for the first time in five years, with share of the "at need" market up 1.9% to 16.4%, and our "pre-need" market share increasing to 28%. Plan sales rose 69% and customer satisfaction hit a record high of 95.2. Underlying operating profit was in line with last year at £69m (2015: £69m) as we continued to invest in the estate. Operating profit was £30m higher at £99m, boosted by the profit on the £41m sale of our crematoria. As a result, the Co-op increased its market share by 47% in the pre-need funeral market.

We invested heavily in 2016 to give people a better service and expand into more communities. Our 1,000th funeral home was opened in the year, and over three years we plan to open 200 more to serve more of our members in more communities. As well as opening 41 new homes, we refitted 200 existing ones as part of our plan to refit the entire estate by the end of 2019. We also continued to invest in our technology and operations, freeing colleagues to spend more time with the bereaved.

To build on this momentum, we are creating a single integrated team incorporating both our Funeralcare and Legal Services' business, with a clear aim of expanding our business for the benefit of our members to

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help them with life planning.

We made a concerted move to cut prices. Our Simple Funeral was relaunched with a price reduction of about 7%. We were the first funeral business to sign up to the Fair Funerals enhanced pledge to tackle funeral poverty. At the same time we launched the UK's most affordable national fully-guaranteed funeral plan.

Co-op Insurance

Sales	Total sales up 28% to £439m, with Gross Premiums up 15%
Operating Loss	£18m, down from a loss in 2015 of £60m
Underlying Operating Profit *	£11m, up from a loss in 2015 of £13m

Revenues in our Insurance business were 28% higher at £439m (2015: £343m), as we wrote more motor policies against an inflationary backdrop for premiums due to claims inflation, together with a favourable movement in the value of claims from previous years. At the same time we continued to improve our pricing and distribution capabilities. This translated into an increase in underlying operating profit to £11m, up from a loss of £13m in 2015. The 2016 outcome includes a cost of £15m to reflect the change in the rate, set by the Government, which we use to calculate some of our longer term claims. The absence of any significant weather events like those that struck northern England and Scotland in 2015 saw lower claims than in previous years.

Underlying operating profit excludes the one-off costs associated with our transformation programme, on which we continue to progress. Including these one-off costs we made an operating loss of £18m, in line with our plans, compared to a £60m loss in 2015.

The Insurance business is on a journey to transform the way it engages with members and customers. This involves separating out the insurance systems from the Co-operative Bank's systems, building a long-term operating model, reducing costs and having a set of systems in place which improves the way it distributes its products and services and broadens its offering.

The Co-operative Bank

The Co-op Group holds a 20% minority shareholding in The Co-operative Bank. Following the Group's decision to reduce the carrying value of the stake at the half year to £140m, we have reviewed the fair value at the year-end and reduced the value to £Nil.

Given that the Bank is in a sale process, the consideration to be received for our share is obviously volatile and potentially has a large range of options and we believe this is a prudent valuation. We are supportive of the process the Bank is going through to find a secure home for members who use their services.

It should be noted that the Group, within its planning for both Rebuild and Renew, does not rely on any cash receipts as a result of holding this investment.

Colleagues

- Colleagues actively involved in shaping the Co-op under strengthened governance structure, with 16 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
- More than 700 new Co-op apprentices appointed in the last 12 months across our businesses
- Co-op colleagues participate in the new member benefits trial, with a sharp increase in colleague sales witnessed

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- 69,000 Co-op colleagues embarked on a unique “Back to Being Co-op” journey to reconnect them with Co-op heritage and values
- Significant investment made in building the leadership skills of our colleagues with more than 5,600 attending “Being A Co-op Leader” programme
- Colleagues play a major role in us reaching £5.5m fundraising mark to help tackle isolation and loneliness

Outlook

- All of our markets remain fiercely competitive and we face a challenging consumer and economic backdrop. Given our unique ownership structure, we will continue to invest in all our businesses and in member benefits, focused on the long term.
- In **Food**, food price inflation will be a factor in 2017, but we remain confident that our compelling member offer will continue to drive sales. In **Funerals**, we expect to continue to improve our member offer through the creation of our Life Planning division, which will combine our Funeralcare and Legal Services offer in one business. In **Insurance**, market conditions remain fiercely competitive and the outlook for premiums remains uncertain due to inflationary pressure from sterling weakness.
- Against this backdrop, and in line with our long-term plans, we’ll continue to invest to make our Co-op attractive to members and customers.
- As indicated last year, we made no dividend payments to members in 2016 and we have been clear that this will continue through our Rebuild phase, with a continued focus on the 5+ 1 member benefit.
- The benefits we offer to members are fundamental to our strategy. The initial response to the new member benefits was ahead of our expectations, both in terms of new member numbers and increased card usage by existing members. Against that backdrop, by the end of 2017 we expect to have 1m new members, taking membership to almost 5 million. With this target we would expect payouts to members and local causes in 2017 to be over £70m collectively.

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* *__Underlying operating profit__ excludes one-off items, property and business disposals and change in value of investment properties. A reconciliation of Operating Profit to Underlying Operating Profit is provided in the Our Business Performance section.*

** *In addition to the items excluded from Underlying Operating Profit, __Underlying Profit before Tax__ also excludes finance income and non-cash finance costs, and share of profits and losses from associates and joint ventures. A reconciliation of Profit before Tax to Underlying Profit before Tax is provided in the Our Finances section.*

*** *__Like-for-like__ sales is a measure of year-on-year sales growth for stores that have been open for more than one year.*

Notes to editors

About the Co-op Group

The Co-op, 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 3,800 outlets, with more than 69,000 employees and an annual turnover of over £9.5 billion

Report from Group Chair – Allan Leighton

"Our aim is to attract a million new members to our Co-op"

Back to Being Co-op

There's no doubt that we had a momentous 2016. We went back to Being Co-op and we returned to the ideas that have made us special and different to generations of Co-op members. Once again we're rewarding our members, supporting their communities and campaigning on the issues that matter most to them.

Last year was the second year of our Rebuild programme and with our commercial recovery well underway and our governance changes working well, this was the moment to relaunch our Co-op Membership.

At our Annual General Meeting in May we announced the biggest changes to member rewards for decades with our 5% for you when you buy Co-op branded products and services, and 1% to local community causes.

For the first time we're rewarding our members every time they choose Co-op. By 2018 we're committed to giving back £100m a year to our members and their communities through our new Membership rewards.

To draw maximum attention to the changes we've made to Membership and to mark our return to the values of ethical commerce we're best known for, we chose to change our brand. We've brought back our iconic Co-op cloverleaf, first used in the late 1960s when the public had a far greater understanding of what the Co-op stood for. We want the cloverleaf to once again become a signifier of Co-op value and values.

We're well advanced in the rebrand of our stores, funeral homes, packaging and point of sale material, with our online presence already in the new look.

Five million new Co-op cards

Our colleagues began benefiting from the new rewards in June so by the time we switched them on for all of our members in late September we were familiar with explaining how they worked.

We made it a priority to reconnect with our existing members, sending out five million new Co-op Membership cards during September and October.

In 2017 we've begun a national conversation with the British public to re-introduce our Co-op and explain what makes us different to a new generation of customers. Our aim this year is to attract a million new members, with half of them brand new to our Co-op.

Our relationship with the Co-operative Bank

Since the year end everyone will have seen that the Co-operative Bank ('the Bank'), which we have a 20% stake in, is now in a sale process. We are supportive of the process which the Bank is going through to find a secure home for our members who are also customers of the Bank.

Our new Group Chief Executive

Finally, let me take this opportunity to give our heartfelt thanks to Richard Pennycook who stepped down as our Group Chief Executive on 1 March this year. Richard has handed over to Steve Murrells, previously the CEO of our Food business.

Richard joined us in the summer of 2013 to help with the rescue of the Co-operative Bank and then guided us through our constitutional and governance reforms. Richard and his team then put in place the Rebuild strategy we’ve been successfully implementing since 2015. Richard was key in leading the team to save our Co-op in very difficult times.

Richard’s decision to step down this year enables Steve to take executive leadership as we develop the next phase of our Co-op journey.

Steve joined us in 2012 and has successfully led the transformation of our Food business through the True North programme which itself set the template for much of our broader Rebuild strategy. On behalf of the Board I wish Steve and his team every success.

Report from Group Chief Executive – Steve Murrells

"We have the opportunity to show why Britain needs a strong Co-op"

Creating value for our members

I’d like to thank Allan and the Board for the trust they’ve put in me as I take over as Co-op Group Chief Executive.

We're back on our feet again and feeling proud of who we are and what we stand for.

As a co-op we exist to create value for our members by running a successful business that stays true to our ethics and our commitment to commercial responsibility.

In the coming years we have the opportunity to show why the UK needs a strong Co-op. With trust in big business in sharp decline and community life under increasing pressure, our purpose to ‘champion a better way of doing business for you and your communities’ has never been more relevant or timely.

Our job is to prove that relevance and show our Co-op difference in all we do – through the say we give to our members as co-owners of the business; the products and services we offer; our strengthening of local communities; and our national campaigns. We have a unique story to tell and we must tell it well.

Investing for a strong Co-op

Our Rebuild strategy is now in its third year and the investment we've been making is already benefiting our members. We’ve introduced improved products and services, smarter stores and funeral homes, and of course the introduction of everyday financial rewards for our members and their communities.

All of our businesses continue to put in place ambitious plans for improvement and growth. Digital, our newest division, is now a top priority and central to our improvement plans and future ambitions.

In 2016 we also invested in our colleagues by creating a unique Back to Being Co-op event. We took colleagues out of the workplace, to inspire and equip them to be our greatest Co-op advocates. We've since seen our highest colleague engagement scores for many years.

This planned period of peak investment means that our profits are down on 2015, despite good performance from all our businesses. This was factored in to our Rebuild budget from the beginning, along with our commitment to keep our debt level below £0.9bn, which we've also achieved. As Allan has indicated in his report, since the year end the Co-operative Bank ('the Bank') has announced its sale process and given the uncertainty around the value of our investment we have reduced the carrying value of the investment to £Nil, which has reduced our profit before tax by £185m. More information about the Bank valuation is in the Our Finance section.

Join us

As Allan said, our aim this year is to bring our revitalised Co-op to the attention of the whole country and attract at least a million new members through our national *Join us* campaign.

At the beginning of 2017, we began our campaign using cinemas and social media to highlight the relationships we're building with communities through the 1% Co-op Membership rewards.

We've worked with acclaimed British director Shane Meadows to create beautifully filmed stories of some of the 4,000 local causes we're supporting through the first wave of 1% rewards.

In April we take the Join us campaign onto national TV with the message that '*Great things happen when we work together*'. While the TV campaign is running we'll be distributing more than £8m to our first round of local causes. That will give the UK 4,000 local reasons why our Co-op is a different way of doing business.

The next 4,000 causes have already been selected for the second half of 2017.
At our Annual General Meeting in May we'll show how we're returning to our campaigning Co-op heritage by asking our members to vote on motions addressing Modern Slavery, Recycling and Fairtrade. And we'll provide an update on our commitment to Tackling Loneliness.

Looking to the future

There's good reason for us to be excited about the next few years.

We need to see through our Rebuild strategy but we're already looking much further ahead. Having got ourselves match-fit and back on the playing field we're ready to set our ambitions for the longer term as we create a Co-op relevant and vital to a new generation.

I want to make Co-op Membership attractive to younger people to better reflect the nation as a whole. That means using new ways to communicate and explain what our Co-op is all about. I want us to prove that our support for younger people will be a priority for us. We'll do that through increasing our opportunities for apprenticeships and through encouraging a Co-op approach to entrepreneurship.

We should adopt the attitude and actions of the original Rochdale Pioneers, most of who were still in their twenties and thirties when they started the modern co-op movement 170 years ago. Just as they did, we must disrupt and surprise the market for the benefit of our members. We've starting looking at potential new markets where a co-op solution could become a game-changer just as it did in the 19th and 20th centuries.

I'm convinced this is the time when we can really lift our heads again, show how our Co-op is a business you can really trust, and that ethical responsibility and commercial success can go hand in hand.

We know we have fantastic business potential and there's a hunger out there for something different. Our job is to meet that craving with a Co-op response and anticipate where it will go next.

Report from President of the National Members' Council – Nick Crofts

"The National Members' Council – we're at the heart of our co-op difference"

It's a tremendous honour for me to serve as President of our Co-op.

The co-op model is often thought of as complex – but at its heart it's simple. Businesses that are owned by members, run to meet their needs and to deliver benefit to them rather than shareholders. Members elected to our Council play a key role in our Co-op. The Council and its members have unparalleled access to our Co-op's business leaders and opportunities to work alongside and collaborate with colleagues to develop new business ideas. Our Rules codify the role and formal relationship of the Council with the Board and business – but it's the working relationships, trusted constructive challenge, dialogue and passion for being a co-operative business that is shaping how our governance contributes to our co-op difference. Allan Leighton and I have developed a particularly positive working relationship and it has been extremely helpful in delivering on the Council's agenda.

I must thank our former Group Chief Executive, Richard Pennycook, for his service to our Co-op over the last few years. It's no exaggeration to say that his team saved our Co-op from an existential threat. His place in our history is assured. The good working relationships we developed with Richard and his team will, I'm sure, continue to develop under his successor, Steve Murrells. I was delighted to participate in Steve's appointment and I've every confidence that our development will continue under his leadership.

Back to Being Co-op

2016 was the year that we went back to Being Co-op, with the relaunch of our iconic branding and our new Membership – 5% for you and 1% for your community. This is a revolutionary development in the life of our Co-op, and already the influx of new members and the sales performance of the rebranded stores is a testament to its success.

The Council provided robust challenge to the business prior to the launch of the brand to make sure that member views were heard and a constructive set of outcomes achieved. The business responded positively and we have developed new ways of engaging Council as a result. Council will be actively involved in the Renew strategic planning work during 2017.

Holding to account

In 2016, the Council completed work on the new framework to support us in our role of holding the Board to account, the Co-op Compass, a shared way to monitor and measure business performance against four key co-operative lenses – Member Value; Member Voice; Co-operative Leadership and Ethical and Sustainable Leadership. This Council-led work was welcomed and embraced by the Board. I thank them for their constructive input and their openness to developing new ways to strengthen the key role that the Council plays in providing checks and balances. I'm also delighted to have been able to share the learning and core design of our Co-op Compass with other co-operatives to share best practice.

Work has also regained momentum to demonstrate our co-op difference through our stance on a wide range of ethical issues. Council has again played a direct role alongside the business to provide a member perspective as part of our Co-op Way Policy Committee. While there's still a lot of work to do to regain our recent position as a world leader, we've made good progress in putting our co-op difference back at the centre of how we do business.

Building a stronger Co-op

Our business strategy is one of Rebuild. We made significant progress in 2016, both transforming our business and, most importantly, transforming members' benefits and our role in communities. Our new governance model is still in its infancy. We're building rather than rebuilding and we've established strong foundations. Council works alongside the business and Board to make sure that the voice of members is heard in a modern and relevant way, adding value and ideas. I welcome the way that members of the Board have understood and responded to Council thinking on many issues. Directors have been very conscientious in attending Council meetings. The appointment in 2016 of an additional Member Nominated Director to serve on the Group Board has enhanced member voice at the heart of decision-making in our Co-op.

Council is accountable to members and work started in 2016 on improving the ways that we connect and communicate with members, including more member forums, blogs, social media, 'a taste of your Co-op' meetings and the Council newsletter. There remains more work to do here and this is being progressed with the Membership team.

Developing new ways to enable members to participate in their Co-op at local level remains vital to the Council. In 2016, Council proposed the 'Member Pioneer' and local forums model and it's great news that there are plans for Member Pioneers to be appointed in each of the 1,500 communities where we trade.

Finally, I must thank all the Council members for their constructive, passionate and positive work during 2016. Vice Presidents Dan Crowe and Bev Perkins have been a source of terrific support to me and I'm very grateful for their commitment and wisdom. The Council's Secretariat, led superbly by Gill Gardner, is a small team of brilliantly committed individuals who deserve thanks from all our members.

Our business performance

Introducing our year

2016 was a good year for our Co-op. Our strategy for recovery from our crisis just three years ago is working. Our businesses are getting stronger, as our growing sales show. More people are visiting our stores, in Food we gained market share and there's a buzz about our Co-op again.

We're also rediscovering our ethical heart. Our Co-op's always balanced ethics with profit, going back to when we were founded in 1844. We call it the Co-op Way.

Our plans moved forward at speed in 2016. We launched a new offer to our members across the UK. From September, they got 5% back on Co-op branded products and services and could give 1% to local causes.

This was a key part of the Rebuild plan that's well underway, following on from the initial Rescue. The improvements we're making are becoming easier to see. The relaunch of Membership shows our Co-op difference – how we're giving both financial and social rewards to our members and their communities. This is Co-op delivering on our purpose: championing a better way of doing business for you and your communities.

Reaction to our new Membership was very positive from existing members and new ones. 2016 also saw the return of the iconic clover-leaf logo – marking a return to 'Being Co-op'. We were pleased to see that our brand scores recovered strongly as a result to levels last seen before our crisis in 2013.

The relaunch of Membership and our new look demanded a huge effort from our colleagues and leaders. Between our September relaunch and mid-October we sent out 250,000 Membership cards a day to our existing members. And during the year more than 5,600 leaders attended 116 Being a Co-op Leader events, while more than 54,000 colleagues attended 4,600 Back to Being Co-op events – reminding colleagues of our history and why we're a different kind of business. All this meant our colleague engagement levels rose from 74% to 78% in the year.

Our results show we're improving

Our financial results speak for themselves. They show we're slowly growing again. Our Co-op's revenue rose by 3% to £9.5bn, up from £9.2bn in 2015.

Our Food business's like-for-like sales increased by 3.5%, making us the UK's fastest growing food retailer except for the discount supermarkets.

Our Insurance business saw revenues rising more than a quarter as we improved our underwriting capabilities, wrote more motor policies and premiums rose. We were also helped by the elements – there were no major natural disasters in 2016, unlike the storms that struck the North of England and Scotland towards the end of 2015.

Our market-leading Funerals business expanded into new UK communities, refitted funeral homes, rebranded and we grew our market share. Revenues rose by 3% to £307m, compared with £299m in 2015.

Overall our operating profit grew to £148m, up 32%, helped by disposal profits and lower restructuring costs. But because we're reinvesting so much in our businesses, higher sales didn't feed through to underlying operating profits. A reconciliation of operating profit to underlying operating profit is set out below and more detail is provided in Our Finances.

	2016 £m	**2015 £m**
Operating profit	**148**	112
One-off items	**21**	62
Property and business disposals	**(20)**	14
Change in value of investment properties	**(16)**	(24)
Underlying operating profit	**133**	164

Our underlying operating profits fell almost 19% to £133m, down from £164m in 2015. We expected this, knowing that 2016 would be a year of major investment as we improve the businesses for members' benefit. Importantly, our debt remains below the critical £0.9bn guidance level for the Rebuild programme.

To reinvest in our businesses we agreed the sale of our share of the travel joint venture with Thomas Cook, which will raise £82m plus interest in 2017.

We also measure how well we're doing for our members. The number of active members who trade with us regularly rose substantially from 3.4 million before the relaunch to 4 million by the end of the year. We're using digital technology and our Co-op website to keep up to date with what members are thinking, so we can constantly change to keep up with their needs. More than 12,000 members signed up online to tell us about our products and stores. We've hosted 29 'join in' opportunities – engaging members online and in their communities.

Principles and profits

It's clear what our Co-op stands for. Our new 5% and 1% Membership says it all. We're in business for the social good of our members living in every community in the UK. Since we relaunched Membership in September, more than 700,000 new members have joined us. In case anyone hasn't been following our progress, our return to the iconic Co-op logo signals we're going back to Being Co-op. Since May, over 600 food stores and 200 funeral homes have rebranded.

In Food we relaunched our Irresistible range and continued to cut prices on fresh fruit and veg. In 2014, we promised to double the number of local suppliers by the end of 2017 and we're on target to do just that. We continued sourcing from local farms and factories, and we're committed to selling only British meat by May 2017.

In Funeralcare we're making funerals more affordable. We became the first business to sign Fair Funerals' new enhanced pledge to tackle funeral poverty, and launched the UK's most affordable national fully-guaranteed funeral plan.

Causes and campaigning

Our commitment to local causes is clear to see. By the end of 2016, almost £3m had been raised from the 1% of Co-op brand sales members can give to their communities and over 4,000 local causes are set to benefit from the first pay-out in 2017.

And nationally, our colleagues, customers and members also raised £4.5m for the British Red Cross to support the Tackling Loneliness campaign, bringing the total raised to £5m since it was launched in 2015, and beating our £3.5m target. This means we have achieved our target to fund British Red Cross to deliver new services in 39 locations across the UK to tackle loneliness. With the additional money raised we will work with British Red Cross to identify other ways in which our partnership can support even more people experiencing loneliness. Since the end of the year, the total raised has increased to £5.5m and the final total will be announced at our 2017 Annual General Meeting.

Within Food we celebrated the 10th anniversary of our partnership with The One Foundation which has raised £7m from sales of Co-op Fairbourne Springs bottled water. Clean water, sanitation and hygiene projects in Sub-Saharan Africa have changed 1.5 million lives.

We want people in our supply chains to be treated well and are joining with the charity City Hearts to help modern day victims of slavery to get back into the work place.

We're also trying to make communities safer. Co-op Funeralcare colleagues across the UK arranged for 30,000 reflective badges to be given to children, so they could travel safely when the clocks went back. This is part of the road safety charity Brake's 'Be Safe Be Seen' initiative which we have supported for over 10 years.

Renewing our Co-op

2017 will be the third year of Rebuild. It'll set a path towards the Renew phase and completion of our recovery. We'll continue to invest to make our Co-op attractive to customers and members. We'll use digital technology to find new ways of delivering our products and services. And we'll seek to attract 1 million new members through our Join us campaign.

We plan to build a sustainable, profitable and distinctly Co-op business for the future. This remains the right course of action and we're confident in the strength of the co-operative business model.

Food

Shoppers are changing how they shop, and we're helping them. Increasingly, they want to top up their weekly shops little and often. We're making this simpler for them by offering easy shops, friendly people and good food.

For the past two years, we've been making better food available to people where they want to shop, aiming to be the UK's leading convenience food retailer. As part of our strategy called True North, we've invested in improving our food range, opening more convenience stores and permanently lowering prices across our range.

Our efforts are paying off. More people are coming to our stores and they're shopping more often. Our total sales were £7.1bn in 2016 (up from £7.0bn in 2015). Excluding fuel, our sales were up nearly £200m. That makes us the UK's fastest-growing food retailer excluding the discount supermarkets on a like-for-like basis.

We invested in refitting stores, increasing colleague pay, improving our infrastructure and strengthening our food range, especially local British produce. Even after making such an investment for our future competitiveness and prosperity, underlying operating profit was only slightly below last year at £182m (£186m in 2015). Operating profit, which includes property and business disposals and the change in value of investment properties, was up from £196m in 2015 to £203m, mainly as a result of making a profit on property and business disposals of £5m compared to a loss of £14m in 2015.

We're implementing our strategy of focusing on convenience stores quickly. In 2016, we opened 112 new stores and refitted 155 stores with our latest format. We also rebranded a further 607. We're focusing on the right size of store to give customers the best convenience shopping experience, and so we sold or closed 141 stores that didn't fit with this ambition. By the end of 2016, we had 2,774 stores, a few less than the 2,803 at the end of 2015. It's far more enjoyable to shop at our Co-op now, after we've spent £88m on new stores and £85m on refits.

We're also working behind the scenes to transform our logistics and store operations. Our stores are getting simpler and we're improving how we transport goods to them.

The food we sell is getting tastier and healthier all the time. In 2016 we relaunched our 'Irresistible' luxury range, with 2,500 new or improved products, and we're continuing to reduce the amount of sugar, salt, fat and calories in our products.

In 2014, we promised to double the number of local suppliers by the end of 2017. We continued sourcing from local farms and factories, and we launched a new small business charter. We also awarded contracts to a record number of micro-breweries. We're on target to fulfil our local supplier promise.

We know food provenance really matters to our customers and so have committed to selling only British meat by May 2017. This will make us the only major food retailer to stock 100% own brand fresh British beef, chicken, pork, lamb and turkey, and to use 100% British meat in our chilled ready meals, pies and sandwiches (except those featuring a continental meat such as chorizo).

Even some of our wine is British. In November, we launched a range of English wines, including a sparkling and an own-label white.

But we're also championing food ethics, including redistributing food to local charities (see Our Story). Preventing waste is important to us, and so in 2016 we said we would make 80% of our packaging recyclable by 2020, calling on other retailers to do the same.

Our Fairtrade sales increased by 18.4% compared to 2015 against market growth of 7.6% and our commitment to Fairtrade is also increasing. Since the end of the year we have announced that from May 2017 all the cocoa we buy for our own brand products will be Fairtrade.

The grocery trade recognises the improvements we're making. It's no surprise that we scooped three major prizes at the prestigious Institute of Grocery Distribution (IGD) awards for our 'food-to-go' product range and 'service rocks' learning and development initiative. What's more, Steve Murrells, who was CEO Food before taking over as Group Chief Executive in early 2017, was awarded The Grocer Cup by the IGD. This is awarded to the individual who has contributed most to the grocery industry over the past year and shown exceptional leadership.

Our customers are increasingly happy with our Co-op. Customer satisfaction scores got better, with the biggest gains in our own brand products, colleagues and availability.

We're continuing with our True North strategy in 2017 but it won't be easy as inflation returns to the UK grocery market after two years of flat or falling prices.

As we continue to focus on convenience stores, we've agreed to sell 298 of our smaller stores while planning to open, refit and rebrand others. This is in line with our strategy as the stores don't fit with our focus on convenience because they don't allow us to provide a sufficiently compelling own brand offer which is essential to our new Membership. We'll continue making our food better, especially the 'food-to-go' range. We're investing in our IT systems to make it easier to plan our range and to manage our stock, while also continuing to make shops simpler and transform logistics.

Above all we'll keep on delivering value to our customers. With the benefits of shopping with the Co-op even clearer after the relaunch of Membership, we're aiming to sign up 1 million new members during the year.

Our story – Meals for vulnerable people

Making sure food doesn't go to waste is important to us and we know it's important to our members and customers. That's why we're working with the UK's largest food redistribution charity, FareShare, to send our surplus food to charities and community groups that turn it into nutritious meals for vulnerable people. Towards the end of 2015 Co-op launched a new project to improve the way we do this, aiming to redistribute 500 tonnes of food, which provides 1 million meals, in 2016. By the end of the year we'd redistributed enough food to make 1.2 million meals. More than 1,000 charities and community groups received food from us. Community organisations benefiting included children's breakfast and after-school clubs, youth centres, hostels and supported housing for homeless people, community cafés, older people's services, food banks, and family and children's centres. We sent them food including chilled food items such as yoghurt, meat, fruit, vegetables and ready meals. We're also redistributing food through the Real Junk Food Project in Leeds, giving food to its 'Pay-as-you-feel' cafés, as well as to breakfast clubs at local schools.

Funerals

Everyone has the right to a simple, fair, transparent and affordable funeral. In 2016 we took steps to offer a better deal to people in more than 1,000 communities across the UK.

Co-op Funeralcare is a funeral director that's different. Unlike others we're a national group that's also part of local communities, and serves our members where they live. We provide funeral plans for the future (known as 'pre-need') and funerals for when someone dies (known as 'at need'). We're the UK's leading funeral director and are quickly growing our market share.

We invested heavily in 2016 to give people more and cheaper choices, a better service and expand into more communities. This meant that, despite a 1% fall in the death rate, our sales grew to £307m (£299m in 2015) with underlying operating profits remaining stable at £69m (£69m in 2015) – quite an achievement.

Operating profit in 2016 was £99m (£69m in 2015) as this includes the profit on the sale of our crematoria of £30m. After deciding it would be hard to become a major player in this business, we successfully sold our five crematoria for £41m. We're ploughing this money and more back into our funeral homes, as well as providing better products and services. Our 1,000th funeral home was opened in the year, taking us to 1,026 by the end of the year, and over three years we plan to open 200 more.

As well as opening new homes we refitted 200 existing ones and plan to refit the entire estate by the end of 2019. Our old lilac and purple colours had grown outdated, so we've replaced them with grey and a new warm interior. What's more, we're adding finishing touches including local art.

In contrast to other funeral directors, we cut prices without reducing what we offer. Our Simple Funeral was relaunched with a price cut of about 7%. We also improved the standard of our Simple Funeral, for example offering a higher-quality coffin.

We were the first funeral business to sign up to the Fair Funerals enhanced pledge to tackle funeral poverty. Recognising that many people struggle to afford funerals, Quaker Social Action, the anti-poverty charity, launched this national campaign in 2014. At the same time we launched the UK's most affordable national fully-guaranteed funeral plan.

Encouraging over-45's to buy a pre-paid funeral plan to avoid leaving their loved ones a bill we launched a national advertising campaign. Our share of this market grew quickly from 19% to 28% in 2016 – plan sales were 69% up on 2015.

Our support of apprenticeships continued and we signed up an apprentice a day. Apprentices come from all walks of life and all ages, as a former detective sergeant from Canterbury showed. At 67, he joined us after 30 years with the police, becoming our oldest apprentice.

With these improvements it's no surprise that the customer satisfaction data we track continued its upward path with satisfaction scores at a record high of 95.2. In 2017 we plan to continue our mission to bring simple, fair and affordable funerals to more communities. As well as opening more funeral homes and refitting existing ones, we're planning to roll out a new digital service to free up more time for colleagues to care for the families we serve.

Our story – Tackling loneliness in Plymstock

The Plymstock bereavement club, one of over 30 across the country, has become a regular fixture in the diaries of many within the local community. It began with a suggestion from one of our Co-op members who pointed out that there were a lot of lonely people within the community, and that it would be a great opportunity for us to get involved. For regular attendees like Bryan, who lost his wife two years ago, and has been coming to the group ever since, it has become something he relies on and looks forward to throughout the week. Others are dealing with a range of emotions like Beryl who just felt anger that it was her husband who had been taken. She says that it was the evenings when she felt the most alone, but the group has helped her to work through those emotions and has become a vital part of her life. Given that most of the members are over 50, they say how difficult it is at their age to go out and meet new people. So the club has helped them to form new, lasting friendships again; but the best part about it is that they all understand how each other feels. They can give each other that crucial support network, and something constant in their lives while everything else is turbulent.

Insurance

Not many people trust their insurers, but Co-op is the exception. We're working really hard to justify that trust even more by providing high-quality, fair and transparent insurance policies.

Starting from a strong base in home and motor insurance, we're transforming our business and passing the benefits on to members and customers. Our knowledge about our members is helping us to give them fair priced insurance premiums.

We can do these things for members and other customers if our business is strong. In 2016 our profitability was the best it has been for many years. Our revenues were 28% higher at £439m (up from £343m in 2015) as we continued to improve our pricing and distribution capabilities and wrote more motor policies.

Higher revenues helped us to make an underlying operating profit of £11m (up from a loss of £13m in 2015), which includes a cost of £15m to reflect the change in the rate we use to calculate some of our longer term claims. The rate, which is set by the government, was changed in February 2017 and in line with the insurance industry we chose to take the cost in our 2016 results. We were also helped by the fact there were no storms like those that struck the North of England and Scotland in 2015 and by favourable development in our claims from previous years. While market conditions in home insurance remain fiercely competitive, motor premiums increased, reflecting inflation in damage claims. The outlook for premiums remains uncertain with the potential for inflationary pressure resulting from Brexit.

Our underlying operating profit excludes the one-off costs associated with our Transformation programme. Including these one-off costs, we made an operating loss in 2016 of £18m compared to a loss of £60m in 2015.

The Insurance business has been on a journey to transform the way it engages with members and customers. This involves separating out the insurance systems from the Co-operative Bank's systems, building a long-term operating model, reducing costs and having a set of systems in place which improves the way it distributes its products and services and broadens its offering.

We have made progress on a number of fronts, particularly in pricing and the use of member data to enhance products and services. In 2016 we implemented a new telephony system that has improved interactions with our policy holders. Great progress has also been made on operational initiatives to improve efficiency and reduce cost and separate our IT system from the Bank.

As part of our Transformation programme there are a set of replacements for our existing systems which are not currently meeting our expected timelines, so a focus of the business is to ensure this is completed in a timely way and we are investigating a number of actions to sustain our change momentum.

We introduced discounts for members taking out motor insurance. Using our data we're able to reward members with discounted pricing and those taking out new policies also received £50 in Co-op Food vouchers.

But we're also making communities safer. We joined forces with Neighbourhood Watch, aiming to help them set up new Neighbourhood Watch schemes across the country. The partnership will also help our Co-op to reduce loneliness by bringing people in communities together.

Our Young Driver scheme reached its fifth anniversary, helping thousands of young drivers to improve their driving, making roads and communities safer, and helping to cut the cost of insurance for young people. If young people put one of our Smartboxes in their car it monitors how well they drive, so we can reward them for safe driving with lower premiums.

We also launched the Safe Used Car awards to help inform consumers about cars' key safety features when choosing second hand cars.

Championing transparency in insurance is at the heart of our strategy. Our website tool shows customers how their home insurance premium breaks down: how much goes on claims, and how much we spend on running the business. We also created a video showing how we calculate motor insurance premiums to make it easier to understand. Why do they go up or down?

In 2017 we plan to do more for our members as we move further in transforming our technology. When we can, we'll also extend our Membership – returning 5% to members and 1% to local causes when members buy Co-op branded products – to insurance products.

We can only do all this good stuff if we're great at insurance underwriting. That's why we're investing in being an excellent insurer.

Our story – Making roads safer

As part of our long-standing partnership with road safety charity, Brake, we gave 100 year-11 pupils at The Co-operative Academy of Stoke an interactive lesson that highlighted the issues associated with road safety. The session showed how making the wrong driving decision impacts people's lives. For example, we told students how a criminal conviction would hold them back from travelling the world. To capture students' attention we made the lesson interactive. Catching games with students wearing 'beer goggles' showed how alcohol slows reactions. We then set students a mock GCSE English question on persuasive writing based on the contents of the session. Teachers told us that the session got students talking. Nick Lowry, Principal at The Co-operative Academy of Stoke, said: "It was an important lesson for our students and they found it very engaging. It's a fantastic opportunity for the academies to have the Co-op and Brake speaking to students about important issues. Students took the passion that was brought by the speakers and used it in their GCSE English work."

Legal Services

We believe in providing legal services that are easy to access, giving fast and effective legal support at prices that are great value for money. In 2016 we invested in being able to take will, probate and conveyancing instructions online. Our members and clients gave us a vote of confidence and we'll develop more new services in 2017.

Buying a house, writing a will, distributing a deceased family member's estate or going through a divorce are all part of life. Our strategy is to make it very easy for people to do these things effectively, in a way that suits them, and to deliver value for money.

While we offer a broad range of legal services, our largest practice areas currently are estate planning and administration – in other words helping people to write their wills and handling probate when loved ones die.

Just as our members and clients are benefiting from our strategy, so it's helping our profitability. In 2016 our revenues rose to £22m (up from £18m in 2015), lifted mainly by more people coming to us for estate planning services, as well as our acquisition of Collective Legal Solutions (now known as Co-op Estate Planning). Higher revenues lifted operating profits to £1.5m (£Nil in 2015).

Buying Co-op Estate Planning at the end of 2015 expanded our physical presence in communities across England and Wales. Co-op Estate Planning had more than 100 associates and support staff up and down the country. We also invested in our platforms, so we're more efficient and can serve people quicker.

Echoing our ethos that principles are more important than profits, our partnership with Remember a Charity passed the £20m milestone. We encourage people to make gifts to charities in their wills by making this an option in our wills service.

We also spoke to more than 17,000 people in 779 communities, educating them about legal events that might affect their lives.

Our story – Writing a will from home

Ahead of taking a school trip to China towards the end of last year, a drama teacher from Croydon and his civil servant wife decided it was time to make their wills. They turned to our Co-op for honesty and simplicity. Both in their mid-fifties, they had put off writing a will until then. But by using our online service they completed the whole process from home in two to three weeks, and for a fixed fee. The service was still rigorous, complemented by telephone calls, helping them to allow for all eventualities. Writing their wills gave a sense of relief, they said, knowing their daughter was more secure.

Digital

The internet has changed how people shop, communicate and do business. Our Digital team has spent 2016 helping our Co-op to become fitter for a digital future, and preparing it for Renew.

We've been applying the culture, practices, processes and technologies of the internet era to design and deliver Co-op products and services. Our Digital division is also transforming our business processes. The aim is to make sure we're as smart and efficient as our members expect us to be.

All Co-op businesses are using digital approaches to improve what they do, including Electrical, which merged into Digital early in 2016. Electrical's new website went live early in 2017.

Not having an up-to-date website held Electrical back in 2016, a tough year for electrical retailing. Revenues fell to £67m (down from £79m in 2015), and fewer sales led to a larger operating loss of £3m (£1m loss in 2015).

But Electrical stands out for being fair and transparent. We're the only electrical retailer that doesn't make a profit on extended warranties – we sell them for what they cost us. Our customers know that we give them a good deal, as our 97% Feefo rating shows.

Digital is working with Food, Funerals and Legal Services to complete the Rebuild of our Co-op and to prepare for Renew. In Funerals and Legal Services we're harnessing the internet to transform and improve their services. Legal Services' new online wills service makes writing a will much quicker, clearer and simpler.

Food is using digital technology to improve efficiency in a variety of ways. The services team can give customers information more quickly about where products are stocked and a new dashboard trial helped stores to know when deliveries were arriving. We've also been looking into the provenance of goods in our supply chains, seeing if tracking this digitally can give us a competitive edge.

Digital played a key role in our new Membership, launching a web-based Membership platform (see Our Story). This allows members to track the 5% they earn when buying Co-op goods and the 1% for local causes. Members can also exercise their membership votes online.

One of the great things about the internet is it makes connecting with members easier. More than 12,000 members signed up online to tell us about our products and stores. We've hosted 29 'join in' opportunities – engaging members online and in their communities. Members have given over 770 hours of their time. They recommended some wines and sales of these wines then increased by 25%. Listening to members makes our Co-op better for everyone.

What we've done so far is just the start. We're planning to explore using the platforms we're setting up within our Co-op as the beginnings of new digital businesses, and we're investigating new ventures. We've already launched The Federation, an open community of digital businesses and innovators in the heart of Manchester, as a hub for digital businesses in the North.

Looking to 2017, digital thinking will be key in determining our Renew phase. Our Digital team will continue its work with our other Co-op businesses. We'll also get The Federation established and push forward our thinking on partnerships and ventures.

Our story – Designing our members' digital platform

When designing our Membership platform, we put our members first. The platform's our backbone – it's how we deliver the services that help our members engage with us. They can choose local causes to support, make the most of rewards, manage their details and lots of other things too. To make sure we got it right we started out by testing services with colleague members in the summer. They used 58,000 cards from June to September and gave us 550 thoughts about what to do better. They said it was difficult to set up an online account; so, we made it easier. And, they showed us that the causes that matter differ from place to place; so, we added more than 4,000 causes in 1,500 communities. After we publicly launched the new card in September members had lots to say too. They didn't know they could choose their own causes to support so we responded by tweaking the page, making the 'see your local causes' link more prominent. This is just the beginning – we'll be tweaking again and again to make our services as user friendly as possible.

Our finances

The loss before tax for the year was £132m, down from a profit of £23m last year. This has been impacted by the writedown of our investment in the Co-operative Bank ('the Bank') to £Nil, which has led to a cost in our Income Statement of £185m. More detail on this is provided in the Investments in Associates and Joint Ventures section.

As with any organisation in change, there are always lots of non-trading items that affect the numbers, resulting in our operating profit being up by a third to £148m (2015: £112m) but our underlying operating profit being down. A reconciliation of operating profit to underlying operating profit is provided in the Our Business Performance section and further details of the non-trading items are given below.

Our journey from Rescue to Rebuild and then into Renew is well documented. 2016 was the second year of our Rebuild programme and we indicated that profits would fall as we ramped up activity, most notably in the relaunch of our Membership offer and in revitalising our brand. Although underlying operating profits were lower than 2015, they exceeded our expectations thanks to excellent trading performances from all our larger businesses. Food delivered strong like-for-like sales growth, Insurance grew its profits and Funerals matched 2015's excellent result.

Sales

We saw strong sales growth across Food, Funerals and most notably Insurance where sales were £96m (28%) up year-on-year. On a like-for-like basis our Food sales grew by 3.5% and exceeded the market by 4.2% as measured by the Institute of Grocery Distribution. Funerals sales grew by 3%, with particularly strong growth in sales of funeral plans. As a result, overall group revenue increased by 3% to £9.5bn.

Profits

Our key profit measure is underlying profit before tax, which looks at our core trading performance less underlying interest (interest on borrowings). Group underlying profit before tax of £59m was £22m lower than last year, but this was after investing in Rebuild activity.

Most notably, strong sales backed up by good claims experience saw the Insurance business deliver a £24m increase in underlying operating profit to £11m, despite being held back by a charge of £15m as a result of the change in the rate we have to use to calculate some of our longer term claims, which was reduced by the government in February 2017.

Food profit was marginally (2%) lower than in the previous year, reflecting the investments made in lower prices and colleague pay from late 2015 and through 2016.

Costs from supporting functions and Rebuild of £134m were £48m higher than last year due to the increased investment in our Rebuild activities and our Digital capabilities.

We relaunched our Membership in September 2016. The rewards earned by our members (such as 5% back on all Food own brand products) are netted off sales in the accounts. They amounted to £16m in 2016, a figure which will grow significantly in 2017 and beyond. The 1% contribution we make to local community causes is included within operating expenses and amounted to £3m in 2016. We are getting a great response to the new offer, but we need our current members and customers to shop more frequently and to spend more with us, and we also need to attract new customers as members in order for Membership to have a positive impact on our results.

Despite operating profits being up on last year, we are reporting a loss before tax of £132m principally driven by the writedown of our investment in the Bank and an increase in finance costs from the 'mark to market' in the value of our bonds described below. The table shows how we get from reported profit before tax to underlying profit before tax, adding back losses and deducting gains.

	2016 £m	**2015 £m**
(Loss) / Profit before tax	**(132)**	23
One-off items	**21**	62
Property and business disposals	**(20)**	14
Change in value of investment properties	**(16)**	(24)
Finance income and non-cash finance costs	**35**	(5)
Share of profits and losses from associates and joint ventures	**171**	11
Underlying profit before tax	**59**	81

The main elements are explained below.

One-off items

Where we incur significant costs that are non-recurring, such as major restructuring, we strip these out of normal trading profit in order to present a clearer picture of our ongoing trading performance. One-off items of £21m largely relate to Insurance and supporting functions restructuring costs of £35m, offset by a £14m reduction in the provision for the costs of separating from the Bank's systems. The one-off items in the prior year of £62m related to restructuring costs in our Insurance business and supporting functions.

Disposals

We made a profit on disposals of £20m, £34m higher than the £14m loss in 2015. This included a £30m profit from selling our crematoria for total proceeds of £41m, following a decision to exit this part of our Funerals business, and a £5m profit on the sale of our interest in one of our windfarm joint ventures. These profits were reduced by a £13m net loss on the sale or closure of other properties which included the creation of onerous lease provisions (£20m) on leasehold stores, where we're committed to a lease until the next break period.

Finance income and non-cash finance costs

Non-cash financing costs include a charge of £74m (2015: £14m) arising on the fair value movement on our quoted debt (known as 'mark to market'). In common with other bonds, our bonds increased in value because of falling interest rate yields available elsewhere. In addition our improving credit outlook also served to increase our bond values. As the value of our bond debt liability increases in the accounts, it creates a charge to the income statement.

Finance income includes pensions interest of £45m (2015: £39m), the increase reflecting a higher pension asset at the start of 2016 to which interest is applied.

Investments in associates and joint ventures

We have several joint venture and associate arrangements, most notably a 20% stake in the Bank , accounted for as an associate, and a 30% stake in a travel joint venture with Thomas Cook. The income statement includes a loss of £171m (2015: £11m loss) in respect of associates and joint ventures, although there are several larger elements within the net amount as explained below.

Following our writedown of the 20% investment in the Bank at the half year to £140m, we have reviewed the fair value at the year end and reduced the value to £Nil (£185m reduction from last year end). Given that the Bank is in a sale process the consideration to be received for our share is obviously volatile and potentially has a large range of options. We are a holder of an investment and have limited influence on the sale process or consideration to be received, but it should be noted that the Group, within its planning, does not rely on any cash receipts as a result of holding this investment. We are supportive of the process the Bank is going through to find a secure home for members who use their services.

During the year we recognised profits of £12m in respect of the travel joint venture. This included our share of the travel joint venture's profit of £2m and £10m due to revaluation of our investment. In December 2016 we served notice to exit the joint venture arrangement.

We'll receive £50m plus interest by the end of November 2017 in return for our shares in the joint venture. Thomas Cook will also pay the remaining minimum dividend of £32m under the minimum dividend guarantee in the agreement, with £20m paid on 3 January 2017 and £12m on 3 April 2017. Interest is payable on both instalments.

Financing and cashflow

Group net debt was £885m at year end, up from £692m last year (details of what is included in net debt are provided in note 17). The increase was planned. There was continued investment in our trading estate and in Rebuild with significantly lower proceeds on sales of our properties than last year. We invested over £350m on capital expenditure, including £88m on new Food stores and £85m on refitting existing Food stores. We also invested in our new Membership system and our IT systems in Food and Insurance.

Underlying interest payable fell to £74m from £83m, largely because of the cancellation of a number of interest rate swaps in May. We also benefited from the lower facility charges on the new banking agreement signed in February (a revolving credit agreement of £355m expiring in 2021).

Our Insurance business, a regulated entity, is separately funded from the Trading Group, which includes our other businesses, and so we review our funding position separately as well as on an overall group basis. 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, based on current plans anticipates continuing to meet, all these regulatory capital requirements for the 2017/18 going concern horizon.

The Trading Group is comfortably within the ratios of debt and interest imposed by our banks and our funding position is strong. Our next refinancing requirement is the £450m Eurobond notes due 2020.

Tax

We won't be paying corporation tax in respect of the year because we have brought forward capital allowances and tax losses in excess of the taxable profit. These allowances and losses are explained in more detail in notes 8 and 13. In 2016 we paid £217m (2015: £208m) to the government in respect of VAT, business rates, Stamp Duty Land Taxes and Employers' National Insurance.

We retained the Fair Tax Mark accreditation in 2016, an important recognition that we put our values, principles and purpose into action in the way we do business. Our tax policy can be found here: www.co-operative.coop/ethics/tax-policy/.

Pensions

Our accounts show a surplus of £1,688m (2015: £1,130m) across all our schemes. Our largest scheme, the Pace Complete scheme, has a surplus of £1,783m (2015: £1,226m) with most of the other schemes in a small deficit position and so partially offsetting this. The surplus has increased mainly because we have changed our assumptions on life expectancy for scheme members, reducing this from the assumption we used last year. This is in line with the latest actuarial advice.

These figures are on an accounting basis. On a statutory funding basis, which values pension liabilities on a more prudent basis than the accounting basis, Pace Complete is still expected to be in a small deficit position. It's this statutory funding basis that informs how much cash we will need to pay into the pension pot in the future and the latest funding agreement with trustees is expected to be concluded later in 2017.

The Pace Complete surplus is for the whole scheme, including that portion relating to the Co-operative Bank. Until an agreement has been reached on how to separate this out, this will remain with our balance sheet. This is explained further in note 23.

Balance Sheet

Total equity rose by £272m to £3,209m during the year largely because of the increase in the pension accounting surplus explained above.

During the year we agreed to sell 298 of our smaller food stores to McColls Retail Group plc. These are stores which don't fit with our strategy to focus on convenience stores. Although the sale was agreed in 2016, the stores only started to transfer across in early 2017, following clearance from the Competition and Markets Authority, and so at the year end they are shown as assets held for sale, forming the majority of the £106m balance. £37m of goodwill relating to those stores is included within the assets held for sale balance and explains the reduction in the goodwill balance during the year.

The fall in the value of joint ventures comprises the £185m impairment in the value of the Bank investment together with a reduction of £38m following our decision to exit the travel joint venture. The £50m guaranteed proceeds from the travel sale, receivable in November 2017, are included within current trade and other receivables explaining the majority of the increase in that balance.

Non-current provisions have fallen from £352m to £224m in the year largely from the sale of a number of stores and vacant properties in the first half of the year that released £77m of onerous property lease provisions.

Trade and other payables increased by over £150m in the year and this is largely due to very strong funeral plan sales growth which has led to a £110m increase in funeral plan liabilities.

Outlook

2016 saw us make great progress in our Rebuild journey, particularly with the launch of Membership. In 2017 we'll continue with our Rebuild projects but also begin planning for the longer term – a phase we're calling Renew. We'll begin to explore potential new markets and partnerships where we can bring a Co-op solution for the benefit of our members. Membership will remain central to our thinking. We're looking to attract a million new members in 2017 and we want to increase member voice in our decision making and return to our campaigning roots by addressing the issues that matter most to our members.

The wider economic landscape remains challenging and uncertain, particularly as the potential impacts of Brexit emerge, but we are well placed to face this with great trading momentum and a solid platform. There's more to do and this will require more planned investment in 2017. As indicated last year, we made no dividend payments to members in 2016 and we've been clear that this will continue through our Rebuild phase.

Principal risks and uncertainties

The key risks most relevant to the Group are as follows:

Risk category	Specific area of focus	What we are doing to manage and / or reduce uncertainty
Strategic and Business	Delivering our Rebuild Programme	Implementation of our group strategy to rebuild our Co-op is progressing as planned. Ongoing monitoring of key milestones and management of key risks and issues is in place with reports and updates provided to Group Executive and Group Board. We are embedding disciplined, comprehensive programme and portfolio management to support delivery and realise the targeted benefits.
	Delivery of the Insurance business transformation programme	A significant programme of activity is continuing that will transform our Insurance business into a contemporary insurer, demonstrating our Co-op purpose with an offer focused on our members, helping make our communities safer and making the most of our unique data, our brand and our distribution reach. This transformation will ensure our Insurance business has a sustainable, competitive and long-term position in the UK market.
	Defining our Future Operating Model	A plan for how to improve how our Co-op is organised as we move into Renew is being developed. The implementation plan and business engagement strategy is in development through Group HR who will work with each business unit and functional executive team to ensure success in Renew.
	Delivering our Community Plans	Our Community Vision and Strategy was approved by the Board in 2016 and, working with key Business areas and Group functions, an integrated implementation plan to drive forward the delivery of this strategy is being developed and executed. This will also support the 'Join us' campaign to recruit 1 million new members in 2017.
	Undertaking successful separation from the Co-operative Bank ('the Bank')	The Separation programme capability is operating within a defined delivery and governance framework that brings together executive management, key stakeholders and the three lines of defence model. Key components of the programme were delivered in 2016 including the separation of the Bank and Insurance business shared technology applications. Completion of the programme is dependent on the Bank completing its 2017 technology plans.

Strategic and Business cont	Delivering good Governance and building our relations with our Council and members	While there will always be areas for improvement the governance framework introduced from 2015 is embedded and operating well. The Group Board and Council continue to work closely together and the Co-op Compass has been introduced during 2016 to enhance the Council ‘holding to account’ role. Regular Council meetings are held, which directors and the Executive also attend, as well as regular meetings with the President, Vice Presidents and various committees and working groups. Guidance is given, as required, on respective roles and responsibilities.
Finance and Treasury	Managing the pressures on profit	Regular financial planning processes are performed to project latest views of cost pressures such as National Living Wage and the potential impact of Brexit, together with updated projections of sales and margin. A cost saving programme is in place throughout the Rescue and Rebuild phases to ensure Group meets its financial objectives by the end of 2017.
	Managing pension scheme risk and funding	A Pension Strategy Committee has been established to manage our pension risk exposure. Changes to the investment strategy have been agreed and are being implemented. Triennial valuations of three of our pension schemes are to be completed in 2017.
	Meeting our banking covenants	Monthly reporting and monitoring of financial performance is in place to ensure we remain within our banking syndicate covenants. The impact of key business risks on banking covenants is assessed regularly. Formal twice-yearly dialogue is held with members of the banking syndicate, bondholders and Standard & Poor to assist their understanding of our financial performance and ensure continued funding.
Operational and Customer	Managing our data effectively	A group-wide operating model for data has been defined covering ownership, responsibilities, controls and standards. A data leaders community has been established to promote the cultures and behaviours needed to implement the model across the business.
	Protecting the IT environment from external threats	An Information Security Improvement Programme driving improvements to security controls, including security of our members’ data, is progressing well and will transition to business as usual during the first half of 2017. An approved governance structure has been implemented and updated security policies are in place. Regular penetration testing is conducted.
	Misusing or losing our data	Data protection principles and PCI DSS requirements are covered in appropriate policies. A PCI compliance programme is being delivered in conjunction with the Barclaycard Risk Reduction programme. A programme has been set up to deliver changes arising from the new EC General Data Protection Regulations, with third party support.
	Providing a stable and resilient IT platform	An IT Resilience programme is progressing well, delivering improvement initiatives across critical systems following a detailed review of the IT resilience risk position, reflected in improved stability of core IT infrastructure. This will continue into 2017.
	Managing Health and Safety	A Health and Safety improvement programme is continuing to enhance awareness, risk capability and management. Tactical improvements, such as the Safe and Secure programme, have been implemented. Health and Safety forums have been set up across the organisation.
Brand and Reputation	Behaving in an ethical way	A Co-op Way Policy Committee is in place, including members of the Council, to ensure strategies and policies support our purpose and values. An ethical framework in place. Policy Position Statements have been approved by the Co-op Way Policy Committee for seven out of nine key policy areas, of which five are now approved by the Council and Board.

Consolidated income statement
for the period ended 31 December 2016

	Notes	2016 £m	2015 (restated*) £m
Revenue		**9,472**	9,201
Operating expenses		**(9,363)**	(9,132)
Other income		**39**	43
Operating profit	1	**148**	112
Finance income	3	**53**	39
Finance costs	4	**(162)**	(117)
Share of losses of associates and joint ventures	7	**(171)**	(11)
(Loss) / profit before tax		**(132)**	23
Taxation		**(2)**	(8)
(Loss) / profit for the period (all attributable to members of the Society)		**(134)**	15

Non-GAAP measure: underlying profit before tax **

	Notes	2016 £m	2015 £m
Analysed as:			
(Loss) / profit before tax (as above)		**(132)**	23
Add back losses / (deduct gains):			
One-off items	1	**21**	62
Property and business disposals	1	**(20)**	14
Change in value of investment properties		**(16)**	(24)
Finance income	3	**(53)**	(39)
Non-cash finance costs	4	**88**	34
Share of (profit) / losses of associates and joint ventures			
- Bank	7	**185**	39
- Travel	7	**(12)**	(27)
- Other	7	**(2)**	(1)
Underlying profit before tax		**59**	81

*See general accounting policies section for more details of the restatement.

**For a definition of underlying profit before tax, refer to note 1.

Consolidated statement of comprehensive income

for the period ended 31 December 2016

	Notes	2016 £m	2015 (restated*) £m
(Loss) / profit for the period		**(134)**	15
Other comprehensive income:			
Items that will never be reclassified to the income statement:			
Remeasurement gains on employee pension schemes	8	**464**	105
Related tax on items	5	**(71)**	(9)
		393	96
Items that are or may be reclassified to the income statement:			
Changes in value of available for sale assets		**16**	(9)
Related tax on items	5	**(3)**	-
		13	(9)
Other comprehensive income for the period net of tax		**406**	87
Total comprehensive income for the period (all attributable to members of the Society)		**272**	102

*See general accounting policies section for more details of the restatement.

Consolidated balance sheet

as at 31 December 2016

	Notes	2016 £m	2015 (restated*) £m
Non-current assets			
Property, plant and equipment		**1,943**	1,965
Goodwill and intangible assets		**911**	948
Investment properties		**74**	87
Investments in associates and joint ventures	7	**52**	285
Other investments		**1,414**	1,431
Reinsurance contracts		**47**	63
Derivatives	11	**50**	55
Pension assets	8	**1,939**	1,338
Trade and other receivables		**55**	23
Deferred tax assets		**221**	230
Reclaim Fund assets		**237**	73
Total non-current assets		**6,943**	6,498
Current assets			
Inventories		**439**	445
Trade and other receivables		**704**	646
Cash and cash equivalents		**283**	405
Assets held for sale	9	**106**	-
Other investments		**372**	241
Reinsurance contracts		**7**	6
Reclaim Fund assets		**332**	488
Total current assets		**2,243**	2,231
Total assets		**9,186**	8,729
Non-current liabilities			
Interest-bearing loans and borrowings	10	**1,141**	1,071
Trade and other payables		**1,078**	967
Derivatives	11	**-**	37
Provisions		**224**	352
Pension liabilities	8	**251**	208
Deferred tax liabilities		**422**	336
Insurance contracts		**477**	511
Reclaim Fund liabilities		**495**	487
Total non-current liabilities		**4,088**	3,969
Current liabilities			
Overdrafts		**6**	4
Interest-bearing loans and borrowings	10	**21**	22
Income tax payable		**1**	13
Trade and other payables		**1,506**	1,462
Provisions		**102**	87
Liabilities held for sale	9	**5**	-
Insurance contracts		**247**	235
Reclaim Fund liabilities		**1**	-
Total current liabilities		**1,889**	1,823
Total liabilities		**5,977**	5,792
Equity			
Members' share capital		**72**	72
Retained earnings		**3,030**	2,770
Other reserves		**107**	95
Total equity		**3,209**	2,937
Total equity and liabilities		**9,186**	8,729

Consolidated statement of changes in equity
for the period ended 31 December 2016

	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 2 January 2016 (restated*)		**72**	**2,770**	**95**	**2,937**
Loss for the period		**-**	**(134)**	**-**	**(134)**
Other comprehensive income:					
Remeasurement gains on employee pension schemes	8	**-**	**464**	**-**	**464**
Gains less losses on available for sale assets		**-**	**-**	**17**	**17**
Available for sale cumulative gains transferred to the income statement		**-**	**-**	**(1)**	**(1)**
Revaluation reserve recycled to retained earnings		**-**	**1**	**(1)**	**-**
Tax on items taken directly to other comprehensive income	5	**-**	**(71)**	**(3)**	**(74)**
Total other comprehensive income		**-**	**394**	**12**	**406**
Contributions by and distributions to members:					
Shares issued less shares withdrawn		**-**	**-**	**-**	**-**
Contributions by and distributions to members:		**-**	**-**	**-**	**-**
Balance at 31 December 2016		**72**	**3,030**	**107**	**3,209**

See the annual report for further details of Share Capital and Reserves.

	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 3 January 2015 (restated*)		70	2,659	104	2,833
Profit for the period		-	15	-	15
Other comprehensive income:					
Remeasurement gains on employee pension schemes	8	-	105	-	105
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	-	(9)	-	(9)
Total other comprehensive income		-	96	(9)	87
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 (restated*)		72	2,770	95	2,937

*For more details on the restatement, refer to the general accounting policies note.

Consolidated statement of cash flows
for the period ended 31 December 2016

	Notes	2016 £m	2015 £m
Net cash from operating activities	6	**247**	283
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(330)**	(297)
Proceeds from sale of property, plant and equipment		**60**	161
Purchase of intangible assets		**(23)**	(15)
Acquisition of businesses		**(5)**	(5)
Acquisition of investments in joint ventures and associates		**-**	(3)
Proceeds from sale of investments		**5**	-
Disposal of businesses, net of cash disposed		**17**	14
Dividends received from investments	7	**2**	6
Net cash used in investing activities		**(274)**	(139)
Cash flows from financing activities			
Interest paid on borrowings		**(72)**	(80)
Issue of corporate investor shares		**-**	4
Repayment of borrowings including derivatives	10	**(22)**	(50)
Issue of borrowings including derivatives	10	**-**	68
Finance leases repaid		**(3)**	(4)
Net cash used in financing activities		**(97)**	(62)
Net increase in cash and cash equivalents		**(124)**	82
Cash and cash equivalents at beginning of period		**401**	319
Cash and cash equivalents at end of period		**277**	401
Analysis of cash and cash equivalents			
Overdrafts (per balance sheet)		**(6)**	(4)
Cash and cash equivalents (per balance sheet)		**283**	405
		277	401

Group Net Debt	2016 £m	2015 £m
Interest-bearing loans and borrowings:		
- current	**(21)**	(22)
- non-current	**(1,141)**	(1,071)
Total Debt	**(1,162)**	(1,093)
- Group cash	**283**	405
- Overdraft	**(6)**	(4)
Group Net Debt	**(885)**	(692)

See note 10 for a full reconciliation of the movement in net debt.

General Accounting Policies

Status of financial information
The financial information, which comprises the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated statement of cash flows and related notes, is derived from the full Group financial statements for the 52 weeks to 31 December 2016 and does not contain all information required to be disclosed in the financial statements prepared in accordance with International Financial Reporting Standards.

The Group Annual Report and Financial Statements 2016, on which the auditors have given an unqualified report and which does not contain a statement under part 7, section 87(4) or (7) of the Co-operative and Community Benefit Societies Act 2014, will be submitted to the Financial Conduct Authority following the 2017 Annual General Meeting, and made available to members by no later than 20 April 2017.

General information
Co-operative Group Limited is a registered co-operative society domiciled in England and Wales. The address of the Society's registered office is 1 Angel Square, Manchester, M60 0AG.

Basis of preparation
The Group accounts have been prepared in accordance with the Co-operative and Communities Benefit Act 2014 and applicable International Financial Reporting Standards as endorsed by the EU (IFRS) for the 52 week period ended 31 December 2016. As permitted by statute, a separate set of financial statements for the Society are not included.

The accounts are presented in pounds sterling and are principally prepared on the basis of historical cost. Areas where other basis are applied are identified in the relevant accounting policy in the notes in the Annual Report. For example, the Group fair values its Eurobond Notes which has significantly impacted the Group's profits this year (see note 10). Amounts have been rounded to the nearest million.

The accounting policies set out in the notes have been applied consistently to all periods presented in these financial statements, except where stated otherwise.

Basis of consolidation
The financial statements consolidate Co-operative Group Limited ('the Society'), which is the ultimate parent society, and its subsidiary undertakings. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

A diagram setting out the composition of the Group and its principal subsidiaries, joint arrangements and associates can be found in the annual report. A full list of subsidiaries that make up the Group for the purposes of these financial statements can be found at:

http://www.co-operative.coop/corporate/aboutus/oursubsidiaries/

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total comprehensive income of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

A joint venture is an arrangement whereby the Group has joint control and has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Definition of Trading Group and Financial Services
Throughout the financial statements reference is made to the Financial Services activities of the Group to distinguish it from other Trading Group activity. The Financial Services entities comprise CIS General Insurance Limited (CISGIL) and other smaller entities (mainly holding, ancillary companies and the Reclaim Fund Limited) and the Group's remaining 20.2% investment in the Co-operative Bank Plc ('the Bank'). This distinction is made as the Trading Group, CISGIL and the rest of Financial Services are separately funded.

Accounting dates
The financial statements are prepared for the 52 weeks ended 31 December 2016. The Trading Group subsidiaries prepare their accounts for the first Saturday of January unless 31 December is a Saturday. Comparative information is presented for the 52 weeks ended 2 January 2016. Since the financial periods are virtually co-terminous with the calendar years, the current period figures are headed 2016 and the comparative figures are headed 2015.

The Financial Services subsidiaries of the Group have also prepared accounts for the period ended 31 December 2016.

One-off items and non-GAAP (Generally Accepted Accounting Procedures) measures
One-off items include costs relating to activities such as large restructuring programmes and costs or income which would not normally be seen as costs or income relating to the underlying principal activities of the Group.

To help the reader make a more informed judgement on the underlying profitability of the Group, a non-GAAP measure: underlying profit before tax, has been presented. This is shown at the bottom of the income statement and is reconciled back to the statutory measure of profit before tax. In calculating this non-GAAP measure, property and business disposals (including individual store impairments), the change in value of investment properties, one-off costs, profit / losses from associates / joint ventures and non-underlying interest are added back.

Offsetting
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to do so and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Critical accounting estimates and judgements in applying accounting policies
The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements and estimates made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are described in the following notes in the Annual Report stated below:

• Supplier income (Note 4)

• Non-current asset impairment (Notes 10 & 11)

• Accounting for the Group’s investment in the Bank (Note 22)

• Pensions (Note 23)

• Inventories (Note 14)

• Provisions (Note 19)

• General Insurance claims and reserves (Note 12 & 24)

The Group has applied all endorsed IFRSs that are effective on a European basis for the Group’s financial statements for the period ended 31 December 2016 and the comparative period.

Restatements
The comparative figures presented within these financial statements for the financial year ended 2 January 2016 are consistent with the 2015 annual report with the exception of the restatements noted below:

- pension assets and pension liabilities on the balance sheet have been restated in the prior year by a reduction of £40m and £19m respectively. Retained earnings have been restated by £17m (net of £4m deferred tax) to reflect this adjustment. 2015 opening reserves have decreased by £32m (net of £8m deferred tax) and other comprehensive income in 2015 has increased by £15m (net of £4m deferred tax). For more details on the nature of the restatement, refer to note 8. The restatement is not considered material enough in the context of the Group’s reserves of £3bn and a net pension surplus of £1.2bn in the prior year and £1bn in 2014 to warrant a third balance sheet as required under IAS 1.

- 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 are treated as a pass through cost. An adjustment of £100m has been made to the comparative figures for both Revenue and Operating Expenses. There is no impact on profit.

- 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. There is no impact on profit.

Standards, amendments and interpretations issued but not yet effective

The Group has not early adopted the following standards and statements. The adoption of these standards is not expected to have a material impact on the Group's accounts when adopted.

• IFRS 2 - Amendments to clarify the classification and measurement of share-based payment transactions

• IFRS 4 - Amendments regarding the interaction of IFRS 4 and IFRS 9

• IAS 7 - Disclosure Initiative

• IAS 12 - Amendments regarding the recognition of deferred tax assets for unrealised losses

• IAS 40 - Amendments to clarify transfers or property to, or from, investment property

• Annual Improvements to IFRSs 2014 - 2016 Cycle – various standards

The adoption of the following standards will or may have a material impact on the Group's accounts when adopted:

• IFRS 9 (Financial Instruments: Classification and Measurement (2013))

This new standard, issued in July 2014 replaces IAS 39 (Financial Instruments: Recognition and Measurement (2009)). IFRS 9 Financial Instruments includes requirements for the recognition and measurement, derecognition and hedge accounting for financial instruments. IFRS 9 was originally issued in November 2009, reissued in October 2010, and then amended in November 2013. The standard will be effective for annual periods beginning on or after 1 January 2018 and management are currently assessing the potential impact of the new standard on the financial statements.

• IFRS 15 Revenue from Contracts with Customers*

This new standard, issued in July 2014 replaces a number of standards and interpretations, including IAS 11, 18 and IFRIC 13, 15 and 18. It will be effective for annual periods beginning on or after 1 January 2018. As the Group's operations are mainly in retail and not in long term contracts, the effects of this standard will be minimal, except with regards to member payments. As a member will usually expect a discount in the form of a dividend on the point of sale, the Group will need to recognise a liability at the point of sale rather than when the dividend is approved at the Annual General Meeting. In addition, the amount recognised as a liability will be presented as a reduction in revenue rather than as a charge to the Income Statement after operating profit. As the Group is still developing its future dividend strategy, the numerical impact of these changes is uncertain. Furthermore, the introduction of the new standard may affect revenue recognition on funeral plans and management is currently assessing the potential impact of the new standard on the financial statements.

• IFRS 16 Leases*

IFRS 16 fundamentally changes the accounting for leases by lessees. It eliminates the current IAS 17 dual accounting model, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting. It will be effective for annual periods beginning on or after 1 January 2019. As the Group has material operating lease obligations, the introduction of the new standard will have a material impact upon both assets and liabilities on the balance sheet and the rental charge recorded in the income statement. Management are still assessing this impact. More information on the Group's operating leases commitments, which are currently off-balance sheet, can be found in note 12.

*Not yet endorsed by the European Union.

Going concern

The Directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position (as set out in Our Business Performance). The Directors have also assessed the financial risks facing the Group, its liquidity position and available borrowing facilities. These are principally described in note 10 to the accounts. In addition, note 17 and note 25 of the annual report also include details of the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its financial instruments and hedging activities.

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

The Trading Group meets its working capital requirements through a number of separate funding arrangements, as set out in detail in note 25 of the annual report, certain of which are provided subject to continued compliance with certain covenants (Debt Covenants). Profitability and cash flow forecasts for the Trading Group, prepared for the period to June 2018 (the forecast period), and adjusted for sensitivities considered by the Board to be reasonably possible in relation to both trading performance and cash flow requirements, indicate that the Trading Group will have sufficient resources available within its current funding arrangements to meet its working capital needs, and to meet its obligations as they fall due.

CISGIL is required to comply with a number of regulatory capital requirements. In assessing capital resilience for the period under review, CISGIL has considered a number of stress and reverse stress tests on capital in the context of maintaining future capital levels above all regulatory requirements. In considering these scenarios, management has identified potential actions that could be taken to improve the capital position if overall solvency is threatened.

After considering both Trading Group and CISGIL as described above, and after making all appropriate enquiries, the Directors have a reasonable expectation that the Society and the Group have access to adequate resources to enable them 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 financial statements

1 Operating segments

2016

	Revenue from external customers (f) £m	**Underlying segment operating profit (a) £m**	**Operating profit £m**	**Additions to non-current assets (e, f) £m**	**Depreciation and amortisation (e) £m**
Food	**7,064**	**182**	**203**	**286**	**(210)**
Funeralcare	**307**	**69**	**99**	**26**	**(19)**
Insurance	**439**	**11**	**(18)**	**64**	**(61)**
Other businesses	**89**	**5**	**5**	**1**	**-**
Federal (g)	**1,573**	**-**	**-**	**-**	**-**
Costs from supporting functions	**-**	**(134)**	**(141)**	**40**	**(22)**
Total	**9,472**	**133**	**148**	**417**	**(312)**

2015 (restated - see (d) below)

	Revenue from external customers (f) £m	Underlying segment operating profit (a) £m	Operating profit £m	Additions to non-current assets (e, f) £m	Depreciation and amortisation (e) £m
Food	6,958	186	196	273	(213)
Funeralcare	299	69	69	16	(20)
Insurance	343	(13)	(60)	55	(47)
Other businesses	97	8	8	-	(1)
Federal (g)	1,504	-	-	-	-
Costs from supporting functions	-	(86)	(101)	22	(29)
Total	9,201	164	112	366	(310)

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), change in value of investment properties, profits / losses from associates / joint ventures and one-off costs.

b) Each segment derives its revenue and profits from the sale of goods and provision of services, mainly from retail and insurance activities.

c) The Group identifies its operating segments based on its divisions, which are organised according to the differing products and services it offers its customers. The reportable operating segments (and the captions) reported above are based on the periodic results reported into the Chief Operating Decision Maker (CODM) which is the Board and whether the respective division's results meet the IFRS 8 minimum reporting thresholds. The 'Other Businesses' category includes activities which are not reportable per IFRS 8. The significant constituent parts of 'Other businesses' are the Group's Legal Services and Electricals business and their results have been combined as allowed by IFRS 8. Other Financial Services entities (mainly holding, ancillary companies and the Reclaim Fund Limited) are included within costs from supporting functions.

d) The operating segments for 2015 have been to restated to (i) reflect a change in accounting policy such that 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 and instead they are treated as a pass through cost (see accounting policies section for further details) and (ii) 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.

e) Additions to non-current assets are derived on a cash flow basis. Depreciation and amortisation excludes £7m (2015: £9m) amortisation of deferred income relating to the use of the Co-operative Travel brand by the Group's associate: TCCT Holdings UK Limited. Amortisation of £61m (2015: £47m) and additions of £64m (2015: £55m) on deferred acquisition costs are included within Insurance.

f) The Group's external revenue and non-current assets arise primarily within the United Kingdom. The Group does not have a major customer who accounts for 10% or more of revenue. There are no material transactions between the main operating segments.

g) Federal relates to the activities of a joint buying group that is operated by the Group for itself and other independent co-operative societies. The Group acts as a wholesaler to the other independent co-operatives and generates sales because of this. This is run on a cost recovery basis and therefore no profit is derived from its activities.

h) Transactions between operating segments excluded in the analysis are £6m (2015: £9m) sales of electrical goods by Co-op Electrical to Food and £2m (2015: £2m) sales of legal cover on insurance policies by Legal Services to Insurance.

i) A reconciliation between underlying segment operating profit and operating profit is as follows:

2016	**Food**	**Funeralcare**	**Insurance**	**Other businesses**	**Costs from supporting functions**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Underlying segment operating profit	**182**	**69**	**11**	**5**	**(134)**	**133**
One off items	**-**	**-**	**(29)**	**-**	**8**	**(21)**
Property and business disposals	**5**	**30**	**-**	**-**	**(15)**	**20**
Change in value of investment properties	**16**	**-**	**-**	**-**	**-**	**16**
Operating profit	**203**	**99**	**(18)**	**5**	**(141)**	**148**

One off items include restructuring costs of £29m (2015: £47m) and primarily relate to expenditure incurred in relation to the on-going transformation programme and replatforming work being undertaken within our Insurance business. The costs associated with the implementation of the transformation programme are charged to the income statement as incurred, with recognition of assets where the technical accounting criteria are met. The remaining gain of £8m (2015: £15m charge) relates to a £14m (2015: £nil) provision release in relation to the costs of separating the Group's IT functions from the Bank (see note 19 of the annual report) and net of costs of £6m (2015: £15m) relating to restructuring activity within our supporting functions.

2015	Food	Funeralcare	Insurance	Other businesses	Costs from supporting functions	Total
	£m	£m	£m	£m	£m	£m
Underlying segment operating profit	186	69	(13)	8	(86)	164
One off items	-	-	(47)	-	(15)	(62)
Property and business disposals	(14)	-	-	-	-	(14)
Change in value of investment properties	24	-	-	-	-	24
Operating profit	196	69	(60)	8	(101)	112

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

	Notes	**2016 £m**	2015 £m
Underlying segment operating profit		**133**	164
Underlying interest payable	4	**(74)**	(83)
Underlying profit before tax		**59**	81
One-off items		**(21)**	(62)
Property and business disposals (see below)		**20**	(14)
Change in value of investment properties		**16**	24
Finance income	3	**53**	39
Non-cash finance costs	4	**(88)**	(34)
Share of losses of associates and joint ventures	7	**(171)**	(11)
(Loss) / profit before tax		**(132)**	23

Profits / (losses) from property and business disposals	**2016**		2015	
	£m	**£m**	£m	£m
Crematoria sale				
- proceeds	**41**		-	
- less net book value written off	**(11)**		-	
		30		-
Sale of Somerfield Stores Ltd				
- expenses	**(13)**		-	
- payable recognised	**(35)**		-	
- net onerous lease provision release and net book value written off	**53**		-	
		5		-
Sale of Twin Rivers windfarm (see note 7)				
- proceeds	**21**		-	
- less net book value written off	**(16)**		-	
		5		-
Sale of other land and buildings				
- proceeds	**69**		161	
- less net book value written off	**(67)**		(137)	
- provisions recognised on closure	**(20)**		(16)	
		(18)		8
Impairment of property, plant and equipment		**(5)**		(22)
CFS Management Services Ltd (CFSMS) retirement liability derecognised		**3**		-
Profit / (loss) on disposal		**20**		(14)

2 Supplier income

Supplier Income	**2016 £m**	2015 £m
Long-term agreements	**155**	138
Bonus income	**157**	160
Promotional income	**359**	337
Total supplier income	**671**	635

Percentage of Food's Cost of Sales before deducting Supplier Income		
Long-term agreements	**2.2%**	2.1%
Bonus income	**2.3%**	2.4%
Promotional income	**5.2%**	5.1%
	9.7%	9.6%

These figures do not include income or purchases made as part of the Federal joint buying group.

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.

Supplier income due to Food from suppliers at the balance sheet date is shown in Trade receivables. See the annual report for further details.

3 Finance income

	2016 £m	2015 £m
Net pension finance income	**45**	39
Fair value movement on interest rate swaps (see note 11)	**8**	-
Net interest on funeral investments and liabilities (see below)	**-**	-
Total finance income	**53**	39

Included in the above are interest and bonuses of £23m (2015: £65m) earned in the year on funeral plan investments. These have been offset by a £23m (2015: £65m) increase in the corresponding financial liability. See note 26 in the Annual Report for further details of our accounting policy for funeral plans.

4 Finance costs

	2016 £m	2015 £m
Loans repayable within five years	**(27)**	(7)
Loans repayable wholly or in part after five years	**(47)**	(76)
Underlying interest payable	**(74)**	(83)
Accelerated fee amortisation due to the early repayment of debt	**-**	(2)
Fair value movement on quoted Group debt (see note 10)	**(74)**	(14)
Fair value movement on interest rate swaps (see note 11)	**-**	(1)
Discount unwind of provisions (see note 19 of the annual report)	**(14)**	(17)
Other finance costs	**(88)**	(34)
Total finance costs	**(162)**	(117)

The Group's Eurobond debt is fair valued each period with the fair value movement going through the income statement (see note 10).

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

Total interest expense on financial liabilities that are not at fair value through profit or loss was £16m (2015: £17m).

5 Taxation

	Footnote	2016 £m	2015 £m
Current tax charge - current year	(i)	**-**	-
Current tax - adjustment to group relief payable owed to Co-operative Bank Plc	(ii)	**6**	17
Current tax credit - adjustment in respect of prior years	(iii)	**12**	-
Net current tax credit		**18**	17
Deferred tax charge - current year	(iv)	**(24)**	(38)
Deferred tax credit - adjustments in respect of prior years	(v)	**4**	13
Net deferred tax charge		**(20)**	(25)
Total tax charge		**(2)**	(8)

The tax on the Group's net profit before tax differs from the theoretical amount that would arise using the standard applicable rate of corporation tax of 20% (2015: 20.25%) as follows:

	Footnote	2016 £m	2015 £m
(Loss) / profit before tax		**(132)**	23
Tax credit / (charge) at 20% (2015: 20.25%)		**26**	(5)
Deferred tax reconciliation:			
Expenses not deductible for tax (including one off costs)	(vi)	**(1)**	(3)
Depreciation and amortisation on non-qualifying assets	(vii)	**(3)**	(6)
Non-taxable profits arising on business disposals	(viii)	**(2)**	-
Impairment of investment - Co-operative Bank plc	(ix)	**(37)**	(7)
Associated company profits / losses	(x)	**2**	(2)
Capital gains arising on property disposals	(xi)	**(21)**	(2)
Adjustment in respect of previous periods	(v)	**4**	13
Derecognition of tax losses	(xii)	**-**	(3)
Restatement of deferred tax to blended rate (2015:18%)	(xiii)	**12**	(10)
Subtotal of deferred tax reconciling items		**(46)**	(20)
Current tax reconciliation:			
Current year tax charge	(i)	**-**	-
Adjustment in respect of previous periods	(iii)	**12**	-
Adjustment to group relief payable	(ii)	**6**	17
Current tax reconciling items		**18**	17
Total tax charge		**(2)**	(8)

Tax expense on items taken directly to consolidated statement of comprehensive income

	2016	2015 (restated*)
	£m	£m
Actuarial gains and losses on employee pension scheme	**(71)**	(9)
Available for sale assets - Insurance	**(3)**	-
	(74)	(9)

*See general accounting policies section for more details of the restatement.

Of the tax taken directly to the consolidated statement of comprehensive income, £74m charge (2015: £9m charge) relates to deferred taxation charge of £84m (2015: £17m) arising on actuarial movement for the year, net of a credit of £13m (2015: £12m) which relates to the restatement of deferred tax rates on the pension scheme surplus. Furthermore, there is a £3m charge representing the movement in deferred taxation on available for sale assets in General Insurance (2015: nil). See note 13 of the annual report on deferred tax.

The Finance Act 2015 will reduce the main rate of corporation tax to 19% from 1 April 2017 and the Finance Act 2016 will further reduce the main rate of corporation tax to 17% from 1 April 2020. This will reduce the company's future current tax charge accordingly. Each deferred tax balance has been measured individually based on the tax rate at which it is expected to unwind (either 17% or 19%). This results in a blended deferred tax rate of 17.1% at the balance sheet date.

Tax policy

The Group published its Tax Policy on our website http://www.co-operative.coop/ethics/tax-policy. The disclosures made in these financial statements comply with the commitments made in that policy.

Footnotes to taxation note 5:

i) The Group is not taxpaying in the UK in respect of 2016 due to the fact it has a number of brought forward capital allowances and tax losses that are in excess of its taxable profit for the period. These allowances and losses are explained in more detail at note 13 of the annual report. An amount of current tax of £253k (2015: £170k) is in respect of wholly owned Isle of Man resident subsidiary, Manx Co-operative Society, an entity which made a profit of £2.3m in the period by undertaking convenience retailing in the Isle of Man. This is the Group's only non UK resident entity for tax purposes. A full copy of the most recent accounts is available here https://www.co-operative.coop/downloads/manx-co-operative-2016-accounts.pdf. In addition the Group has one company registered in the Cayman Islands, Violet S Propco Limited. This dormant company has always been UK resident for tax purposes as it is managed and controlled entirely within the UK. All tax obligations in respect of this company are therefore reported in the UK.

ii) The Group hold a creditor balance in relation to group relief claimed from Co-operative Bank plc in 2012 and 2013 (see note 18 of the annual report). This group relief payable is intrinsically linked to and held at prevailing tax rates to 17%. As a result of the reduction in corporation tax rates, the total group relief payable has reduced and a credit is required to be booked in the income statement in respect of this item.

iii) Adjustments to tax charges in earlier years arise because the tax charge in the financial statements is an estimate that is prepared before the detailed tax calculations are required to be submitted to HMRC, which is 12 months after the year end. Furthermore, HMRC may not agree with a tax return some time after the year end and the liability for a prior period may arise as a result. Provisions for uncertain tax positions booked in previous years of £6m have been released in the year as a result of the closure of enquiries by HMRC during 2016. The remainder of the Group's provision for uncertain tax positions in respect of open enquiries from HMRC has been reallocated from current tax to deferred tax during 2016. An offsetting charge of £6m is in the prior year deferred tax figure. More detail is provided in note 13 of the annual report.

iv) Deferred taxation is an accounting standard concept that reflects how certain income and expenses fall into the charge to tax in differing periods from the accounting period than the period the original income or expense arose. These differences are a result of tax legislation. Note 13 of the annual report explains how each deferred tax balance has moved in the year.

v) In addition to the adjustments arising between prior year estimates and submissions to HMRC and the uncertain tax adjustments detailed at footnote (iii), during 2016 the Group re-assessed the methodology used to calculate certain historic deferred tax balances, primarily arising on land and buildings and pensions. More detail is provided at note 13 of the annual report.

vi) Some expenses incurred by the Group may be entirely appropriate charges for inclusion in its financial statements but are not allowed as a deduction against taxable income when calculating the Group's tax liability. Examples of this include certain repairs, entertaining costs and legal costs.

vii) The accounting treatment of depreciation differs from the tax treatment. For accounting purposes an annual rate of depreciation is applied to capital assets. For taxation purposes the Group is entitled to claim capital allowances, a relief provided by law. Certain assets do not qualify for capital allowances and no relief is available for tax purposes on these assets. This value represents depreciation arising on such assets (primarily land and buildings).

viii) In 2016 the Group disposed of its shareholding in Twin Rivers Wind Farm Limited, NewCo Crematoria Limited, NewCo Crematoria 2 Limited, NewCo Crematoria 3 Limited and Somerfield Stores Ltd. No tax arose on the accounting profit due to the availability of the Substantial Shareholding Exemption. This is a legislative exemption from capital gains for corporate entities who sell more than 10% of their shares in a trading entity.

ix) Tax relief is not available on the impairment of the investment held in the Co-operative Bank plc.

x) This represents the share of post-tax profits from associated companies that are not included in the Group's tax charge, as tax is already included in the accounts of the associate.

xi) During the year a number of assets were sold, where the tax value is in excess of the accounting profit. In addition, the proposed sale of 298 food stores to McColls Retail Group plc became unconditional for tax purposes during 2016, and as such tax legislation states that the gain arising on the future disposal of these stores is taxable during 2016.

xii) In 2015, part of the deferred tax asset for tax losses was derecognised, as it was considered that these losses will not be able to be utilised in future periods. No such derecognition has been made in 2016.

xiii) It is a requirement to measure deferred tax balances at the substantively enacted corporation tax rate at which they are expected to unwind. Due to the reduction in corporation tax rates from 18% to 17% deferred tax balances have been reduced, to reflect this decrease in tax rates.

6 Reconciliation of operating profit to net cash flow used in operating activities

	2016	2015
	£m	£m
Operating profit	**148**	112
Depreciation and amortisation charges (excluding deferred acquisition costs)	**251**	263
Non-current asset impairments	**5**	27
Profit on disposal of businesses and non-current assets	**(25)**	(13)
Change in value of investment properties	**(16)**	(24)
Retirement benefit obligations	**(45)**	(38)
(Increase) / Decrease in inventories	**6**	(11)
Increase in receivables	**(160)**	(130)
Increase in payables and provisions	**71**	98
Net cash flow from operating activities before asset and liability movements in Financial Services	**235**	284
Fair value through profit and loss movement	**(27)**	(43)
Assets available for sale movement	**21**	66
Movement in deferred acquisition costs	**(3)**	(8)
Reinsurance assets	**15**	3
Loan receivables at amortised cost	**(6)**	(3)
Insurance and other receivables	**36**	(68)
Insurance and participation contract provisions	**(24)**	15
Insurance and other payables	**-**	37
Asset and liability movements in Financial Services	**12**	(1)
Net cash from operating activities	**247**	283

Asset and liability movements from Financial Services activity are shown separately from the rest of the Group to aid a member in understanding the impact of fluctuations and volatility in this area.

The increases in receivables and payables noted above for the Trading Group include increases on funeral plan assets and liabilities of £109m (2015: £129m) and £109m (2015: £130m) respectively.

7 Investments in associates and joint ventures

A breakdown of the investments held and income received is disclosed below:

	2016		2015	
	Income / (losses)	**Investments**	Income / (losses)	Investments
	£m	**£m**	£m	£m
The Co-operative Bank plc	**(185)**	**-**	(39)	185
TCCT Holdings UK Limited (Travel) - share of income / (losses)	**12**	**-**	(5)	38
NOMA	**1**	**39**	1	34
Other investments (including windfarms)	**1**	**13**	-	28
	(171)	**52**	(43)	285
Income from dividend guarantee (explained overleaf)	**-**	**-**	32	-
Total	**(171)**	**52**	(11)	285

The movements in investments in associates, joint ventures and other investments are as follows:

	2016 £m	2015 £m
At beginning of period	**285**	316
Additions	**5**	3
Transfer from investment property	**-**	15
Share of losses	**(171)**	(43)
Dividends received	**(2)**	(6)
Disposals	**(65)**	-
At end of period	**52**	285

Of the dividends received in the above table, £nil (2015: £5m) was received from Travel and £1m (2015: £1m) received from a number of windfarms and £1m from NOMA (2015:£nil). The principal place of business for all of the Group's investments in associates and joint ventures is the United Kingdom.

The Co-operative Bank plc (the Bank)

The Group has fully impaired its investment in the Bank to £nil (2015: £185m). The impairment charge of £185m (2015: £39m) has been reflected in the share of losses of associates and joint ventures line in the income statement. During 2016, the Bank reported a net loss of £419m and then announced on 26 January 2017 that its CET1 ratio will fall and remain below 10% over the medium term. The Bank then announced on 13 February 2017 that it was commencing a sale process and considering options to build capital. Given these significant uncertainties we have determined, using appropriate estimates and assumptions, that the recoverable amount of our investment requires full impairment at the year end. Whilst it is important to acknowledge the Group may ultimately realise some value for its investment as part of any sales process, it would be inappropriate to recognise any potential value in our accounts at 31 December 2016.

The Group continues to be a going concern without needing to realise any cash proceeds from its investment in the Bank. The Group's risk associated with its interest in the Bank is minimal as the Group does not rely on dividend payments from the Bank to fund its other operations. There is no requirement for the Group to invest more capital into the Bank which could adversely impact its investment in other areas.

The principal activity of the Co-operative Bank Plc is banking and its principal place of business is the United Kingdom. In October 2016, Alistair Asher, Group General Counsel was re-appointed onto the Bank Board. By retaining the right to appoint a director to the Bank Board, the Group can still continue to promote the adoption of the Co-operative's ethical agenda into the Bank's activities and strategy. The Bank's year end date is 31 December as the Bank works to a monthly reporting cycle. For further information on the Bank's commitments and contingent liabilities, see below.

The Bank has the following significant restrictions to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group. The Bank may, by ordinary resolution, declare a dividend to be paid to the members, according to their respective rights and interests in the profits. When considering whether or not to pay an interim dividend or to recommend the payment of a final dividend, the Bank Board shall take into account such factors as the Bank's capital and financial position, cash requirements, liquidity and profits available as well as the Bank's regulatory outlook, capital position, investment needs and principal relevant risk factors subsisting at the time.

The Bank splits its risks into three main areas: credit risk, liquidity risk and market risk which have all been relevant in the context of the Group's valuation of its investment in the Bank. Credit risk is the current or prospective risk to earnings and/or capital arising from a borrower's failure to meet the terms of any contract with the Bank or the various subsidiaries of the Bank or such borrower's failure to perform as agreed. Liquidity risk is the risk that the Bank's resources will prove inadequate to meet its liabilities as they contractually fall due or as a result of any contingent or discretionary cash outflows that may occur in a stress. It arises from the mismatch of timings of cash flows generated from the Bank's assets and liabilities (including derivatives). Should additional liquidity be required during a time of stress this is likely to result in higher than anticipated funding costs which will negatively impact on retained earnings and therefore capital resources. Market risk is the risk that the value of assets and liabilities, earnings and/or capital may change as a result of changes in market prices of financial instruments. The majority of the Bank's market risk arises from changes in interest rates which is managed and hedged in line with the market risk policy to minimise earnings volatility. For more specific information on the Bank's own risks, refer to the Bank's own 2016 annual financial statements.

TCCT Holdings UK Limited (Travel)

On 29 November 2016, a deed was signed with Thomas Cook that determined when the additional outstanding dividend amount of £32m had to be paid by and in addition confirmed that the value payable for the Group's shares in the JV in the event of exit in 2017 would be £50m, in line with the terms of the Shareholders' Agreement.

Of the outstanding dividend, £20m was received on 3 January 2017 and the remaining £12m is due on 3 April 2017. This amount was recognised by the Group in 2015 and the balance as at 31 December 2016 is also within trade and other receivables.

On 6 December 2016 the Group served notice to Thomas Cook of the decision to exit its investment in the Travel JV under the put option granted to it in the Shareholders' Agreement. This means that Thomas Cook Retail Ltd has to buy the Group's 30% interest by 30 November 2017. Upon giving notice, the Group lost all voting rights to the associate meaning it is no longer able to demonstrate significant influence over the entity. Therefore, the book value of the investment in Travel has transferred to trade and other receivables and is treated as a disposal in the above table.

This means that at the balance sheet date, the Group only has a trade and other receivable of £82m in relation to its former investment in Travel. The Group's share of the profits or losses of the associate will no longer appear in the Group's income statement in 2017.

NOMA

On 5 June 2014, the Group completed a joint venture with Hermes Real Estate to develop the £800m NOMA scheme in Manchester city centre via a joint venture. The partnership will develop the buildings and land within NOMA to deliver a new mixed use district in the Northern part of Manchester City Centre. NOMA is strategic to the Group's activities as it is developing the Group support centre's surroundings. As decisions about the relevant activities of NOMA can only take place with unanimous consent of both parties, NOMA is considered to be a joint arrangement. As the Group has rights to the net assets of the arrangement, NOMA is a joint venture and the Group therefore equity accounts for its investment in its financial statements. The Group's risk associated with its interest in NOMA arises if property values were to fall in Manchester leading to impairments of property in the joint venture and therefore a potential impairment in the value of the Group's investment. There are no restrictions to transfer funds to the entity in the form of cash dividends or repay loans or advances made by the entity. During the year the Group contributed £5m (2015: £3m) to the joint venture to fund investment.

Twin Rivers Windfarm

The Group sold its investment in the Twin Rivers windfarm on 2 December 2016 for £21m. At the time of the sale the book value of the investment was £16m.

8 Pensions

Defined benefit (DB) plans

The Group operates a number of DB pension schemes, the assets of which are held in separate trustee-administered funds to meet future benefit payments. The Group's largest pension scheme is the Co-operative Group Pension Scheme (‘Pace’) which accounts for approximately 85% of the Group's pension assets. The DB section of Pace ('Pace Complete') closed to future service accrual on 28 October 2015. The Group operates four other funded DB pension schemes which are also closed to future service accrual. Pace is a multi employer scheme and there are currently ongoing discussions with the Bank on separating their share of the liabilities. Further information about Pace is set out below.

Defined contribution (DC) plans

Since the closure of the DB schemes, the Group continues to provide all employees with DC pension benefits. Colleagues are able to select the level of contributions that they wish to pay. The contribution paid by the Group varies between 1% and 10% of pensionable salary depending on the contribution tier that the member has selected.

Contributions are based on the member’s basic pay plus any earnings in respect of overtime, commission and shift allowance. Colleagues who meet automatic enrolment requirements are enrolled into the tier with 1% colleague and 2% employer contributions. All colleagues across the Group are able to join the DC section and have the option to change their contributions at any point.

The Pace DC section provides benefits based on the value of the individual colleague’s fund accrued through contributions and investment returns.

The Group pays these contributions into a separate entity and has no legal or constructive obligation to pay contributions beyond those specified above. There is therefore no balance sheet items for DC pension benefits except for any accrued contributions.

Balance sheet position for DB plans

The table below summarises the net surplus in the balance sheet by scheme:

	Net 2016 £m	Net 2015 (restated) £m
Schemes in surplus		
The Co-operative Group Pension Scheme (Pace)	**1,783**	1,226
Somerfield Pension Scheme	**156**	112
Total schemes in surplus	**1,939**	1,338
Schemes in deficit		
United Norwest Co-operatives Employees' Pension Fund	**(173)**	(123)
Yorkshire Co-operatives Limited Employees' Superannuation Scheme	**(21)**	(16)
The Plymouth and South West Co-operative Society Limited Employees’ Superannuation Fund	**(51)**	(58)
Other unfunded obligations	**(6)**	(11)
Total schemes in deficit	**(251)**	(208)
Total schemes	**1,688**	1,130

Recognition of accounting surplus

Any net pension asset disclosed represents the maximum economic benefit available to the Group in respect of its pension obligations. The Group has always recognised the entire net pension asset in respect of Pace and the Somerfield Scheme since it can recoup a surplus via a refund. There is no requirement in Pace that a surplus has to be shared amongst participating employers. Furthermore, during 2016, the Group has carried out a review of the provisions for the recovery of surplus in it's smaller pension schemes. This review concluded that these schemes can recoup surplus via a combination of refunds and reductions in contributions and this is reflected in the balance sheet position.

Restatement

The net pension surplus on the balance sheet has been restated in the prior year by £21m for two items that partially offset. Firstly, the pension assets were overstated by £40m as the pension benefits for certain members of Pace had historically been understated. This has been partially offset by a £19m overstatement in pension liabilities. Legal advice obtained in 2016 confirms that the Group can recognise a surplus on the United, Yorkshire and Plymouth schemes. This has meant that the Group did not need to provide the £19m IFRIC 14 onerous liability remeasurement in 2015.

Changes in the present value of the defined benefit obligation (DBO)

	2016	2015 (restated*)
	£m	£m
Opening defined benefit obligation	**9,669**	9,972
De-recognition of Britannia Pension Scheme (unfunded)	**(3)**	-
Current service cost	**-**	61
Interest expense on DBO	**355**	361
Participant contributions	**-**	16
Past service costs	**-**	1
Remeasurements:		
a. Effect of changes in demographic assumptions	**(550)**	(28)
b. Effect of changes in financial assumptions	**2,432**	(331)
c. Effect of experience adjustments	**(290)**	(29)
Benefit payments from plan	**(466)**	(354)
Closing defined benefit obligation	**11,147**	9,669

*See restatement section at start of note for more detail.

Changes in the fair value of the plan assets

	2016	2015 (restated)
	£m	£m
Opening fair value of plan assets	**10,799**	10,921
Interest income	**400**	400
Return on plan assets (excluding interest income)	**2,056**	(271)
Administrative expenses paid from plan assets	**(5)**	(6)
Employer contributions	**51**	93
Participant contributions	**-**	16
Benefit payments from plan	**(466)**	(354)
Closing fair value of plan assets	**12,835**	10,799

9 Assets and liabilities held for sale

	2016 £m	2015 £m	2016 £m	2015 £m
	Assets held for sale		**Liabilities held for sale**	
Total	**106**	-	**(5)**	-

Assets and liabilities classified as held for sale	**2016 £m**	2015 £m
Property, plant and equipment	**48**	-
Intangible assets	**58**	-
Deferred tax	**(5)**	-
	101	-

The majority of the assets held for sale relate to 298 food stores that will be sold to McColls Retail Group plc. Following regulatory approval from the Competition and Markets Authority in December 2016, the transaction is expected to be completed in 2017. 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 from the sale to McColls are expected to be above carrying value, no impairment has been incurred. The intangible asset comprises £54m of goodwill that arose on the acquisition of Somerfield and that is allocated to Food as a whole and £4m arising on other individual acquisitions.

10 Interest-bearing loans and borrowings

Non-current liabilities:	2016 £m	2015 £m
£450m 6 7⁄8% Eurobond Notes due 2020*	**511**	477
£350m 7 1⁄2% Eurobond Notes due 2026*	**416**	376
£21m 8 7⁄8% First Mortgage Debenture Stock 2018*	**21**	21
£109m 11% final repayment subordinated notes due 2025	**109**	109
£19m Instalment repayment notes (final payment 2025)	**16**	17
Corporate investor shares	**-**	1
Non-current portion of finance lease liabilities	**-**	2
Trading Group interest-bearing loans and borrowings	**1,073**	1,003
£70m 12% Financial Services Callable Dated Deferrable Tier Two Notes due 2025 **	**68**	68
Total Group interest-bearing loans and borrowings	**1,141**	1,071

Current liabilities:	2016 £m	2015 £m
Instalment repayment notes (final payment 2025)	**1**	1
Corporate investor shares	**16**	16
Current portion of finance lease liabilities	**2**	3
Other unsecured loans	**2**	2
	21	22

* These drawn down loan commitments are designated as financial liabilities at fair value through the income statement.

** The tier two notes were issued by CISGIL on 8 May 2015.

For more information about the Group's exposure to interest rate and foreign currency risk, and a breakdown of IFRS 13 level hierarchies in relation to these borrowings, see note 11.

Reconciliation of movement in net debt

Net debt is a measure that shows the Group's net indebtedness to banks and other external financial institutions and comprises the total of cash and short-term deposits less deposits held in trustee-administered bank accounts and current and non-current interest-bearing loans and borrowings.

For period ended 31 December 2016	**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)**	**-**	**1**	**-**	**(21)**
- non-current	**(1,071)**	**(74)**	**3**	**1**	**(1,141)**
Total Debt	**(1,093)**	**(74)**	**4**	**1**	**(1,162)**
Group cash:					
- Group cash (per balance sheet)	**405**	**-**	**(122)**	**-**	**283**
- Overdraft (per balance sheet)	**(4)**	**-**	**(2)**	**-**	**(6)**
Group Net Debt	**(692)**	**(74)**	**(120)**	**1**	**(885)**
<u>Comprised of:</u>					
Trading Group Debt	**(1,025)**	**(74)**	**3**	**1**	**(1,095)**
Trading Group Cash	**331**	**-**	**(123)**	**-**	**208**
Trading Group Net Debt	**(694)**	**(74)**	**(120)**	**1**	**(887)**
CISGIL debt and overdrafts	**(72)**	**-**	**(1)**	**-**	**(73)**
Co-operative Banking Group Ltd (CBG Ltd) cash and overdrafts	**74**	**-**	**1**	**-**	**75**
Group Net Debt	**(692)**	**(74)**	**(120)**	**1**	**(885)**

For period ended 2 January 2016	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)
<u>Comprised of:</u>					
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 Ltd cash and overdrafts	80	-	(6)	-	74
Group Net Debt	(743)	(9)	64	(4)	(692)

Details of the Group's bank facilities are shown in note 25 of the annual report.

Terms and repayment schedule

The 8.875% First Mortgage Debenture Stock 2018, which is secured over freehold and leasehold properties, with an original value of £50m, was subsequently reduced to £21m as a result of a partial redemption exercise in April 2014. This also had the effect of increasing the debenture coupon to 8.875% (previously 7.625%). The residual carrying amount of £21m is to be paid to holders upon maturity.

The 6.875% (inclusive of 1.25% coupon step up) Eurobond Issue 2020 has an original value of £450m (carrying amount of £511m) and the 7.5% (inclusive of 1.25% coupon step up) Eurobond Issue 2026 has an original value of £350m (carrying amount of £416m). These bonds have each been paying an additional 1.25% coupon since 8 July 2013 following the downgrade of the Group's credit rating to sub investment grade. Both these Bonds are to be paid to holders upon maturity at par value.

In December 2013 the Group issued two subordinated debt instruments; £109m 11% final repayments notes due 2025 and £20m instalment repayment notes, final payment 2025. As at 31 December 2016 the amounts outstanding are final repayments notes of £109m and the instalment repayment notes of £17m.

The unsecured bank loans consist of a £355m Revolving Credit Facility which expires in February 2021. The facility is undrawn as at 31 December 2016.

Corporate investor shares

Corporate investor shares represent borrowings the Group has with other co-operative societies. The rate of interest payable on the borrowings is determined by reference to the London Interbank Offered Rate (LIBOR). The borrowings are split into Variable Corporate Investor Shares (VCIS) and Fixed Corporate Investor Shares (FCIS). The VCIS are money at call and the rate of interest that is charged is fixed across all Societies based on a policy of Base minus 0.5% with a minimum of 0.25%. The FCIS are fixed term borrowings at fixed rates of interest (currently 1%). Corporate Investor shares may be issued to existing corporate members who hold fully paid corporate shares and are registered under the Co-operative and Communities Benefit Act 2014.

Finance lease liabilities

Finance leases have the following maturities in the Trading Group:

	2016 £m	2015 £m
Less than one year	**2**	3
Greater than one year but less than five years	**-**	2
	2	5

Under the terms of the lease agreements, no contingent rents are payable. The difference between the total future minimum lease payments and their present value is immaterial.

11 Financial instruments, derivatives and fair values of financial assets and liabilities

Derivatives
Derivatives held for non-trading purposes for which hedge accounting has not been applied are as follows:

	2016			2015		
	Contractual/ notional amount	**Fair value assets**	**Fair value liabilities**	Contractual/ notional amount	Fair value assets	Fair value liabilities
	£m	**£m**	**£m**	£m	£m	£m
Interest rate swaps	**390**	**50**	**-**	893	55	(37)
Total recognised derivative assets / (liabilities)	**390**	**50**	**-**	893	55	(37)

During the year the Group closed or terminated certain fixed and floating rate swap instruments. This was part of a strategic exercise to rationalise and simplify the Group's swap portfolio following a review of the Group's overall interest rate risk strategy in relation to its current capital requirements and rebuild and renewal plans.

Fair values of financial assets and liabilities

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

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

Investments in funeral plans

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

Derivatives
Forward exchange contracts, such as the Trading 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.

Fixed rate sterling Eurobonds

The fixed rate sterling eurobond values are determined in whole by using quoted market prices. The interest rate swap values are determined in whole by counterparties who use quoted market prices. The forward exchange contracts are valued using an internal valuation technique.

b) Available for sale assets
Fair value of listed debt securities is based on clean bid prices at the balance sheet date without any deduction for transaction costs. Available for sale assets are regularly reviewed for impairment. Objective evidence of impairment can include default by a borrower or issuer, indications that a borrower or issuer will enter bankruptcy or the disappearance of an active market for that financial asset because of financial difficulties. These reviews give particular consideration to evidence of any significant financial difficulty of the issuer or measurable decrease in the estimated cash flows from the investments.

c) Interest-bearing loans and borrowings - amortised cost
These are shown at amortised cost which presently equate to fair value or are determined in whole by using quoted market prices. Fair value measurement is calculated on a discounted cash flow basis using prevailing market interest rates.

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

The table below shows a comparison of the carrying value and fair values of financial instruments for those liabilities not disclosed at fair value.

Financial liabilities	**Carrying value 2016**	**Fair value 2016**	Carrying value 2015	Fair value 2015
	£m	**£m**	£m	£m
Interest-bearing loans and borrowings	**194**	**203**	195	198

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

2016	**Designated at fair value**	**Loans and receivables**	**Available for sale**	**Other amortised cost**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Assets					
Other investments	**1,098**	**-**	**688**	**-**	**1,786**
Derivative financial instruments	**50**	**-**	**-**	**-**	**50**
Trade and other receivables	**-**	**678**	**-**	**-**	**678**
Cash and cash equivalents	**-**	**-**	**-**	**283**	**283**
Total financial assets	**1,148**	**678**	**688**	**283**	**2,797**
Liabilities					
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**
Interest-bearing loans and borrowings	**948**	**-**	**-**	**212**	**1,160**
Trade and other payables	**-**	**-**	**-**	**2,355**	**2,355**
Funeral plans	**915**	**-**	**-**	**-**	**915**
Overdrafts	**-**	**-**	**-**	**6**	**6**
Total financial liabilities	**1,863**	**-**	**-**	**2,573**	**4,436**

2015	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total
	£m	£m	£m	£m	£m
Assets					
Other investments	980	-	692	-	1,672
Derivative financial instruments	55	-	-	-	55
Trade and other receivables	-	597	-	-	597
Cash and cash equivalents	-	-	-	405	405
Total financial assets	1,035	597	692	405	2,729
Liabilities					
Derivative financial instruments	37	-	-	-	37
Interest-bearing loans and borrowings	874	-	-	214	1,088
Trade and other payables	-	-	-	2,192	2,192
Funeral plans	805	-	-	-	805
Overdrafts	-	-	-	4	4
Total financial liabilities	1,716	-	-	2,410	4,126

The following table provides an analysis of financial assets and liabilities that are valued or disclosed at fair value, by the three level fair value hierarchy as defined within IFRS 7 (Financial Instruments: Disclosure):

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

Based upon guidance issued by The Committee of European Securities Regulators, 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 that they provide are based on actual trades in the market. Therefore all of the corporate bonds are classified as Level 2.

Valuation of financial instruments

2016	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets				
Financial assets at fair value through income or expense				
- Funeral plan investments	**-**	**-**	**872**	**872**
- Derivative financial instruments	**-**	**50**	**-**	**50**
- Insurance investments	**-**	**226**	**-**	**226**
Available for sale assets	**-**	**688**	**-**	**688**
Total financial assets at fair value	**-**	**964**	**872**	**1,836**
Liabilities				
Financial liabilities at fair value through income or expense				
- Derivative financial instruments	**-**	**-**	**-**	**-**
- Fixed-rate sterling eurobond	**-**	**927**	**-**	**927**
- First mortgage debenture	**-**	**21**	**-**	**21**
- Funeral plan liabilities	**-**	**-**	**915**	**915**
Total financial liabilities at fair value	**-**	**948**	**915**	**1,863**

2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through income or expense				
- Funeral plan investments	-	-	781	781
- Derivative financial instruments	-	55	-	55
- Insurance investments	-	199	-	199
Available for sale assets	-	692	-	692
Total financial assets at fair value	-	946	781	1,727
Liabilities				
Financial liabilities at fair value through income or expense				
- Derivative financial instruments	-	37	-	37
- Fixed-rate sterling eurobond	-	853	-	853
- First mortgage debenture		21	-	21
- Funeral plan liabilities	-	-	805	805
Total financial liabilities at fair value	-	911	805	1,716

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

Investments in debt securities as available for sale financial assets:

	2016 £m	2015 £m
Carrying amount	**688**	692
Fair value	**688**	692
Amortised cost	**664**	684

Interest rates used for determining fair value
The Trading Group uses the government yield curve as of the period end plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2016	2015
Derivatives	**0.40% - 1.22%**	0.72% - 2.07%
Loans and borrowings	**3.65% - 9.41%**	3.97% - 10.23%

12 Commitments and contingent liabilities

a) Capital expenditure not accrued for, but committed by the Group at the year end was £4m (2015: £4m). This all related to property, plant and equipment.

b) Commitments under operating leases:

The Group's operating leases include stores, warehouses and vehicles. These have varying terms, restrictions and renewal rights. The commercial terms of the Group's operating leases vary, however they commonly include either a market rent review or an index linked rent review. The timing of when rent reviews take place differs for each lease. At 31 December 2016, the future minimum lease payments under non-cancellable operating leases were:

	2016		2015	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Within one year	**171**	**8**	191	5
In two to five years	**606**	**11**	680	4
In over five years	**1,318**	**-**	1,436	-
	2,095	**19**	2,307	9

The total of future minimum sublease payments expected to be received under non-cancellable subleases less than 50 years is £182m (2015: £198m).

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

Co-operative Insurance has entered into a long term software asa service contractual agreement. This contract will end no earlier than 2023. The estimated value of the remaining commitment is £153m (2014:£nil), these amounts have not been provided for in the financial statements.

Commitments relating to associates and joint ventures are disclosed in note 22 of the Annual Report.

13 Related party transactions and balances

	Relationship	2016 £m	2015 £m
Sales to associated undertakings and joint ventures on normal trading terms	(i)	**0.2**	0.2
Subscription to Co-operatives UK Limited	(ii)	**0.7**	0.7

i) Details of the Society's associates and joint ventures are set out in note 7.

ii) The Society is a member of Co-operatives UK Limited.

The Society's corporate members include consumer co-operative societies which, in aggregate, own the majority of the corporate shares with rights attaching as described in note 20 of the annual report. The sales to corporate members, on normal trading terms, were £1,573m (2015: £1,504m) and the amount due from corporate members in respect of such sales was £124m at 31 December 2016 (2 January 2016: £113m). No distributions have been made to Corporate members based on their trade with the Group in either the current or prior years.

Transactions with directors and key management personnel
Disclosure of key management compensation is set out in the Remuneration Report. A number of small trading transactions are entered into with key management in the normal course of business and are at arms length. Key management are considered to be members of the management executive and directors of the Group. At the balance sheet date a related party held a funeral plan to the value of £5,000. The transaction is on equivalent terms to those that would prevail on an arms length basis. Other than the compensation set out in the Remuneration Report, there were no other transactions greater than £1,000 with the Group's entities (2015: £nil). Total compensation paid to key management personnel is shown below.

Key management personnel compensation	2016 £m	2015 £m
Short-term employee benefits	**9.0**	10.3
Post-employment benefits	**0.5**	0.7
Other long-term benefits	**1.9**	2.9
Termination benefits	**0.4**	0.8
Total	**11.8**	14.7

Of the above, £0.3m (2015: £1.3m) was paid via a management entity.

Termination benefits in 2016 relate to LTIP awards vested in the year in respect of Executives who left the Group in previous years. See table 2b of the Remuneration Report in the annual report.

Transactions with associates and joint ventures

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

	2016 £m	2015 £m
Loans	**-**	(1)
Intercompany assets	**1**	6
Bank balance	**118**	105
Intercompany liabilities	**(140)**	(156)

Net interest and fees paid to the Co-operative Bank plc were £2m (2015: £3m).

The Group owns 20.2% of the Bank's ordinary shares and has the right to representation on the Board of the Bank. As such the Bank is an associate of, and related party to, the Group and there are material transactions between the two entities. As part of the Liability Management Exercise (LME), when the Bank ceased to be a wholly owned subsidiary of the Group, the Bank and the Group entered into the following agreements and arrangements:

Relationship agreement
In anticipation of the completion of the LME and the Bank ceasing to be a wholly-owned subsidiary of the Group, the Group and The Co-operative Banking Group entered into an agreement with the Bank on 4 November 2013 (the Relationship Agreement) to regulate the basis of their on-going relationship.

Principles
The Co-existence Principles govern the use of trademarks containing 'Co-operative' or 'Co-op' and other associated trademarks owned by both parties.

2014 Commitment Agreement
On 4 November 2013, the Co-operative Banking Group entered into the 2014 commitment agreement with the Bank (the 2014 Commitment Agreement), conditional on the successful implementation of the LME, to subscribe for new ordinary shares satisfied by an irrevocable undertaking to pay £333m. These commitments were satisfied with the final tranche paid by the Group in December 2014.

Pensions Undertaking
On 4 November 2013, the Co-operative Group and the Bank entered into an undertaking whereby the Co-operative Group agreed with the Bank not to require the Bank to cease to participate in Pace in connection with the LME. Through 2016, the parties continue to discuss the separation of Pace and agree the Bank's proportion of employer contributions in Pace.

Britannia Supplementary Pension & Life Assurance Plan (BSPLAP)
On 23 June 2016, the Bank entered into a Deed of Substitution, Removal and Appointment of Trustee and Cessation of Participation relating to the 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.

Britannia Pension Scheme
On 23 December 2015 the Bank entered into a deed of Amendment, Cessation, Substitution of Principal Employer, Apportionment, Augmentation and Release ('the Deed') relating to the Britannia Pension Scheme with CFSMS and other parties. Under the Deed, the Bank agreed to become Principal Employer and Sponsor of the Britannia Pension Scheme in place of CFSMS with effect from 25 December 2015. In addition, the Bank was released from previous guarantees given in favour of the Scheme Trustees and for the benefit of the Scheme.

IT separation costs agreement
The Group currently provides IT services to the Bank under an IT Services Agreement (ITSA) dated 5 July 2012. The services are provided on at 'at costs' basis and the Bank manages the Group as a provider of material services. The most recent amendment to the ITSA was made on 21 December 2016 permitting termination, in part for convenience, and a framework to manage the process of exit of services from the ITSA to the Bank's new chosen suppliers. The Bank is now using this framework to exit progressively from the ITSA as services are transitioned from the Group to new suppliers. At this stage the Bank anticipates completing exit of the IT Services Agreement during 2018.

The Bank and the Group entered into an IT Separation Costs Agreement on 22 January 2015 as amended by a letter dated 20 June 2016 to support Separation of the legacy shared infrastructure. The IT Separation Costs agreement assessed the Bank and Group's respective costs to deliver Separation. Co-operative Banking Group Limited (a 100% subsidiary of the Co-operative Group and parent of CFSMS) undertook to contribute a maximum of £95m towards Group costs, with the Bank to make a contribution of up to £25m, based on a formula in the event that the total cost of the project falls between £76m and £120m. The Group and CFSMS undertook not to terminate the existing ITSA prior to 31 December 2017 to provide the Bank sufficient time to separate its IT infrastructure from that of the Group.

Transitional Services Letter (TSA)
The Group and the Bank entered into a TSA on 21 Dec 2016 whereby the Group agreed to provide certain services to the Bank into the IBM environment to ensure a successful separation of the Bank's IT infrastructure from the Group.

Tax loss share

As part of the negotiations relating to the separation of the Bank from the Group, the Bank and the Group also agreed terms relating to the surrender of group relief between the entities in the Bank's tax group and entities in the Group's tax group. A deed sets out the basis of the agreement by the Group to take proactive steps to allow it to maximise its claim for tax losses from the Bank for the accounting periods to 31 December 2012 and 2013 and the terms of the payment by the Group to the Bank for those tax losses. The Group has recognised an undiscounted creditor of £137m (2015: £143m) with the Bank for this. The Bank receives payment from the Group when the Group realises the benefit of the losses surrendered and at the corporation tax rate at which the benefit is realised.

CFSMS transactions
CFSMS is a subsidiary of the Co-operative Banking Group (which in turn is a wholly owned subsidiary of Co-operative Group Ltd) and continues to undertake the provision of supplies and services on behalf of the Bank. Further details of the CFSMS – Bank Framework agreement are disclosed below.

CFSMS - Bank Framework
On 16 February 2006, the Bank and CFSMS entered into the CFSMS - Bank Services Agreement pursuant to which CFSMS provides assets such as office equipment, materials and office space, other facilities and services, and consultants who act as secondees to the Bank. The Bank provides CFSMS with an indemnity for all liabilities, losses, damages, costs and expenses of any nature as a result of CFSMS entering into and performing the agreement in respect of the assets, services and personnel provided to the Bank.

The Bank and CFSMS commenced unwinding this arrangement during 2014 with the transfer of employment of the majority of the staff to the Bank and the transfer of assets to the Bank. The Bank entered into numerous contracts with third party suppliers to replace those services previously provided to the Bank through CFSMS or the wider Group. By the end of 2016 all known staff transfers had been completed and the vast majority of contracts re-established as 'Bank-only'. The remaining contracts will be transferred as they come due over the balance of the IT Separation period.

IT Security
The Bank's specialist IT security team provide an IT security service to the Bank and CISGIL in relation to the shared IT infrastructure which the Bank and CISGIL share until such infrastructure is separated. This service comprises a small number of people.

Following the TUPE transfer of IT security personnel from CFSMS to the Bank in November 2014, the Bank entered into a letter agreement with CFSMS that regulated the terms on which certain IT security personnel would have transferred from CFSMS to the Bank, and the terms on which the Bank would provide an IT security service that the transferred IT security personnel used to provide, in relation to the IT infrastructure which the Bank and CFSMS share.

NOMA

The Group has transacted in both periods with the NOMA joint venture in relation to the head lease of the CIS Tower in Manchester. The Group has sublet this lease onto the Bank and CISGIL who occupy it. These transactions were all at arms length.