CIS General Insurance Limited
Annual report and accounts 2017

Part of The Co-operative Group Limited

Strategic report

Principal Activities

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

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

Financial Performance

Co-op Insurance 2017 financial performance reflects a strong improvement in current year underwriting result and lower prior year reserve releases than in 2016. During 2017 there has been a focus on investment to deliver enhanced pricing and analytics capabilities and improved customer experience. To enhance the capital position of the business, a quota share reinsurance arrangement was entered into from 1 January 2017 and the 2017 financial results are additionally presented on a like for like basis, to reflect the impact of this newly placed reinsurance arrangement.

Results summary	2017			2016	Change
	Like For Like	Quota Share	Full Year		
£m					
Net earned premiums	473.2	(141.9)	**331.3**	439.0	(107.7)
Net policyholder claims and benefits incurred	(330.8)	94.6	**(236.2)**	(293.9)	57.7
Investment return	15.4	-	**15.4**	14.4	1.0
Commission and expenses	(159.5)	-	**(159.5)**	(161.3)	1.8
Other income	16.3	43.4	**59.7**	13.0	46.7
Finance costs	(8.6)	-	**(8.6)**	(8.6)	(0.0)
Profit/(loss) before transformation costs and taxation	**6.0**	**(3.9)**	**2.1**	**2.6**	**(0.5)**
Costs in respect of Transformation Programme	(23.0)	-	**(23.0)**	(28.8)	5.8
Loss before taxation	**(17.0)**	**(3.9)**	**(20.9)**	**(26.2)**	**5.3**
Gross written premiums (£m)	**496.1**		**496.1**	**480.9**	15.2
Claims ratio (1)	**69.9%**		**71.3%**	**66.9%**	(4.4%)
Commission and expense ratio (2)	**30.1%**		**29.9%**	**33.5%**	3.6%
Combined operating ratio (3)	**100.0%**		**101.2%**	**100.4%**	(0.8%)

(1) Net claims divided by net earned premiums
(2) Operating expenses (excluding Transformation Programme costs and investment management fees of £1.0m) and net commission expense divided by net earned premium
(3) Combination of the claims ratio and the commission and expense ratio

The 2017 full year financial result was a loss before taxation of £20.9m (2016: £26.2m), including the cost of the new quota share reinsurance arrangement and the ongoing costs of business transformation activities. Reported operating profit for 2017 was £2.1m (2016: £2.6m), however excluding the cost of the quota share reinsurance arrangement reported operating profit was £6.0m, reflecting an improvement in the current year underwriting result and lower prior year reserve releases.

Performance of the Motor book improved significantly year on year, driven by the benefits of targeted investment in new pricing technologies and an ongoing pricing strategy to grow profitability. The number of Home policies grew in 2017 although the financial result was impacted by the cost of a proactive initiative to harmonise the terms for long standing customers. Across both Motor and Home there has been significant inflationary pressure in 2017, including the impact of Sterling depreciation due to Brexit and escape of water claims costs in the Home book.

In February 2017, the Ministry of Justice announced a change to the discount rate applied to long term claims for future loss, an estimate of which was reflected in the 2016 financial result. In September 2017, following a period of consultation the Ministry of Justice announced that measures to change the legislation which dictates the discount rate would be implemented, with a range of outcomes noted. A prudent assessment of the impact of this change has been estimated and included in the 2017 result.

Gross written premium grew in 2017 by £15.2m (3%) to £496.1m, reflecting the benefits of improved segmental analysis in the Motor book, offset by competitive conditions in the Home market. The decline in net earned premium from £439m in 2016 reflects the new quota share agreement, with like for like annual growth in net earned premium of 8% driven entirely by the Motor book

Cost management remained a key focus during 2017, with the like for like commission and expense ratio improving to 30.1% (2016: 33.5%). The combined operating ratio before the cost of the quota share reinsurance arrangement was 100.0% (2016:100.4%).

Investment return improved year on year, driven by realised gains of £2.8m (2016: £1.4m) from the sale of investment assets during 2017, with investment income reflecting the post-Brexit yields available in the market. In the context of increased execution risk as a result of the ongoing programme of business transformation, the Board approved investment strategy remains low risk and continues to focus on lower rated corporate bonds being sold and the proceeds reinvested in gilts and cash which generate lower returns.

Strategy

Co-op Insurance holds the Co-operative Group purpose at the heart of its strategy, developing a range of diversified and customer centric propositions focused on the aim of meeting more of the insurance needs of more Co-op members. The ambition is for members and customers to have access to the products they need and for them to find it increasingly easy to do business with Co-op Insurance. This will be enabled by the sustained use of the data it receives from Co-op Group companies. The business' competitive position will be maintained through the continued deployment of fair pricing, passing cost savings on to members and by building strong partnerships. In the wider insurance environment, Co-op Insurance will continue to champion changes to market practices that penalise consumers and support initiatives to help to make communities safer.

Members will be attracted by the Co-op brand and better priced insurance products delivered through the proactive use of new member data. Co-op Insurance will continue to play an active role in introducing new members to the Group, with customers who are not members being attracted through all channels with a competitive offer and then engaged with the Co-op membership offering over time. Commercial success will be secured by investing in core capabilities, a continued focus on costs and effectively communicating a sustainable, fair and unique approach to insurance that disrupts traditional markets.

In 2014 Co-op Insurance recognised the need to replace and upgrade its core IT systems and separate the systems of Co-op Insurance and Co-operative Bank. In July 2015, Co-op Insurance launched a programme of activity, focussed on the implementation and operation of a fully managed IT platform, with IBM as the primary supplier of services. Co-op Insurance's 2016 Annual Report and Accounts stated that delivery of the programme had been delayed and that discussions had been held with IBM about the future direction of the Programme. In July 2017 it was announced that the contract with IBM had been terminated. Co-op Insurance has subsequently initiated proceedings against IBM in relation to the terminated contract and these proceedings are ongoing as at the date of the approval of the accounts. Since the termination of the contract, significant progress has been made through a focus on selective investment to improve specific areas of the current IT estate, deliver systems separation from Co-operative Bank, and improve technology resilience.

Operational Developments

Operational developments in 2017 have focussed on innovations in customer service and the development of new products to widen the insurance offering. The improved customer proposition is supported by the implementation of lean working practices, which enhance the customer experience as reflected in the 8 point year on year improvement in the customer Net Promotor Score.

Developments in data analytics have enabled segmental action to be taken on premium rates throughout 2017, therefore improving management of the core portfolios, driving both positive customer outcomes and short-term profitability. Investment in pricing capability continued in 2017, executed through investment in market leading pricing and underwriting software. This refreshed sophistication, along with a continued scientific approach to segmented pricing has further strengthened the 2017 financial results.

Development of the customer proposition continued through 2017, culminating in the launch of a new Travel product in early 2018. The product was developed with the help of members and is the first in the UK insurance market, to provide unlimited cashless medical expenses for all ages. Digital innovation was a focus in 2017, with the launch of the UK Insurance industry's first ever car insurance quote 'Chatbot' through Facebook Messenger, where users can obtain an estimate for their insurance with Co-op Insurance by answering four simple questions. Further development will continue through 2018, as more new and innovative ways to support members and customers and help make their lives easier through new digital services are sought.

Colleague

Providing colleague opportunities and development continues to be a key focus for Co-op Insurance. In 2017, one focus was on leadership capability and 'Leading The Way' was launched, with all senior colleagues across the business participating in a 12 month management training programme. To support talent development and grow the next generation of Co-op Insurance leaders, 25 new apprenticeships were created in 2017, with competitive salaries above the national average for apprenticeships and the opportunity to earn qualifications up to degree level. The newly appointed apprentices in 2017 include former pupils from the Co-op Academies Trust, which provides opportunities to learn for thousands of students in communities supported by the Co-op across North of England.

Colleague engagement continues to be a priority for Co-op Insurance, with an annual survey across all functional areas and a commitment from senior leaders to act on the results.

The Co-op Difference

The Co-op is committed to championing a better way of doing business for members and their communities. The Co-op Insurance purpose supports this aim, keeping members at the heart of the business, working with them to help make their communities safer and to continue to support charitable causes and campaign on the issues that matter the most.

Co-op Insurance continues to champion safer communities and, following the Safe Used Car Award in 2016, launched the Safe Used First Car Award in 2017 for vehicles under £5,000, to help inform young people looking to buy a car. Work continued with the Co-op Academies educational programme, who alongside the road safety charity Brake, engage teenagers in how they can protect themselves on the road. In July 2017 Park Smart was launched, providing a new digital interactive tool which, using Government car crime data aims to assist people in making informed decisions around where to park their car.

In support of our safer communities initiative, the Co-op Insurance partnership with Neighbourhood Watch continued with Co-op Pioneers and Neighbourhood Watch co-ordinators being brought together to find innovative ways of supporting their local areas . The development of crime prevention trials has also been a focus, working with innovative businesses such as Ring.com, who provide digital video doorbell technology.

Building on the Co-op ethical brand strength, the promotion of the Co-op Insurance carbon offset programme to members and customers continued in 2017, being the first programme operated by a mainstream UK insurer to offset a proportion of carbon emissions as standard for all new direct Home and Motor policies sold .

Group Structure
CIS General Insurance Limited is a wholly owned subsidiary of the Co-operative Group Limited, following the transfer of ownership from Co-operative Banking Group in 2015. During 2017, Co-op Group disposed of its remaining financial shareholding in The Co-operative Bank. Activity to separate the remaining elements of shared infrastructure and systems between Co-op Insurance and The Co-operative Bank is ongoing and formal service management agreements are in place with oversight is provided by a joint governance framework.

Market Background
The UK general insurance market is a highly competitive price driven environment with multiple insurance providers. There was significant upwards pressure on premium rates in Motor throughout 2017 The AA British Insurance Price Index which reported a 9.7% overall increase in prices in the year to 30 September 2017 compared to the 16.3% increases seen in the previous year. Increases in Motor premiums were associated with inflationary pressures, specifically sterling depreciation following the Brexit vote and the cost of increasingly complex vehicle parts and repairs.

In the Home market, margins have been driven downwards by both increasing price pressure and escape of water claims costs. The AA index reported predominantly flat premiums for the Home market with a 3.5% price increase on combined Home policies over the same time period, almost entirely driven by the increases in IPT alone.

Investment yields remain historically low, which reinforces the importance of a continued focus on maintaining underwriting discipline and investment in pricing and data capabilities. Technology change continues to be rapid and is being leveraged to deliver new and innovative customer propositions.

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

The FCA agenda continues to focus on consumer protection issues, with the publication of analysis on the Ageing Population and a Call for Input on Access to Insurance, as well as consultation on the Future Approach to Consumers.

New FCA rules, designed to improve transparency and consumer engagement for general insurance renewals, became effective from 1 April 2017. Co-op Insurance implemented changes to renewal communications and is supportive of the FCA's drive to improve the information provided to consumers.

Implementation of the Insurance Distribution Directive (IDD) has been a priority for regulators, with consultation at a European and national level. The IDD seeks to further harmonise how insurance distribution activities are regulated across the single market to improve consumer protection standards and promote a single market for insurance sales. The new requirements are a significant change to current practice and include new pre-sale documentation and professional standards and product governance rules for both insurers and distributors. Significant work was undertaken by Co-op Insurance in the year to develop and test preparedness to implement the new framework, which is expected to apply from 1 October 2018.

The General Data Protection Regulation (GDPR), which replaces the Data Protection Act, will come into force from May 2018 and is designed to strengthen and unify data protection for individuals within the EU. The Co-op Insurance Board takes seriously the new Regulation and has well developed plans in place for the move to GDPR, with a business wide project team working to manage the transition to compliance with the new legislation.

The Senior Insurance Managers regime (SIMR) was further embedded, with new rules on the referencing checks that financial firms must carry out when recruiting key individuals coming into force during 2017.

Regulatory Outlook
The level of regulatory change seen in 2017 is likely to continue throughout 2018, with the UK's withdrawal from the European Union (EU) a key issue for regulators.

Regulatory priorities for the FCA in 2018 are expected to include insurer pricing practices, continuation of the vulnerable consumers agenda and a thematic review of value in the general insurance distribution chain. The Approach to Consumers will be confirmed in summer 2018 and will set out how the FCA will regulate for retail consumers.

The outcome of a review of the funding model for the Financial Services Compensation Scheme, which will impact the levies paid by financial services firms, is also anticipated by June 2018.

HM Treasury have confirmed the Senior Managers & Certification Regime (SM&CR), which has increased individual accountability in the banking sector, will be applied to insurers from December 2018. The extended SM&CR will build on the requirements of SIMR and create a more consistent and rigorous regime for all in-scope firms.

Capital
Co-op Insurance has monitored available capital on a Solvency II basis throughout 2017 with an estimated Standard Formula Solvency Capital Requirement (SCR) coverage at 31 December 2017 of 157% (2016:148%) and the current year SCR coverage reflects the favourable benefit of the two year quota share reinsurance programme.

Key Performance Indicators

The business strategy for Co-op Insurance measures success in the following key areas: financial and trading; customer; colleague and capital adequacy & risk. This 'balanced scorecard' approach is a key reflection of the Co-op difference and helps ensure focus on the implications to areas identified as key in progression towards the strategic vision.

Indicator	2017	2016
<u>**Financial and trading**</u> *Financial and trading measures focus on profitability, volumes and efficiency*		
Gross written premium This shows the level of premium income that combined business classes bring to Co-op Insurance	£496.1m	£480.9m
Combined operating ratio This compares the levels of claims, costs and commissions being paid out against the level of earned premium	101.2%	100.4%
Profit/(loss) before transformation costs and taxation This shows the level of profit/(loss) before tax (excluding Transformation costs)	£2.1m	£2.6m
In force policy count Policies in force is the number of policies Co-op Insurance hold at the statement of financial position date	1,355,137	1,415,776
<u>**Customer**</u> *Customer measures report on customer contacts throughout the customer journey*		
Net Promoter Score (NPS) A cross industry standard metric to track promoters and detractors, producing a clear measure of an organisation's performance through its customers' eyes (An NPS above zero is regarded as good, above 50 is excellent)	**39.5**	31.8
<u>**Colleague**</u> *Colleague measures focus on employee engagement and satisfaction*		
Colleague engagement Our colleague engagement assessment is derived from our annual internal colleague survey and is a combined score for all functions within the business	68%	76%
<u>**Capital adequacy & risk**</u> *Risk measures focus on capital adequacy and risk appetite*		
Risk appetite For each of the principal risks, Co-op Insurance Board has approved risk appetite statements with underpinning metrics	Risk appetite metrics have approved limits within which business operations are to be conducted, along with thresholds to give early warning of emerging issues	
Capital buffer There are a number of different methodologies for calculating the minimum level of capital that Co-op Insurance must maintain. At any one time Co-op Insurance must ensure it has sufficient capital to meet the most onerous of these requirements	All externally imposed capital requirements have been met	

The Brand Strength KPI has been removed as this measure is no longer a key indicator for management reporting purposes.

Principal Risks and Uncertainties

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

Risk Type	Definition	Page
Strategic and business risk	The risk of not meeting strategic and business objectives caused by poor or sub-optimal strategy implementation, deployment of resources, decision making, strategic change programmes, economic, regulatory or other environmental factors resulting in lost earnings and capital	36
Reputational risk	The risk associated with an issue which could in some way be damaging to the brand of the organisation among all or any stakeholders	36
Conduct risk	The risk that Co-op Insurance's processes, behaviours, offerings or interactions will result in unfair outcomes for customers	36
Regulatory risk	The risk of regulatory sanctions, regulatory censure, material financial loss, or loss to reputation Co-op Insurance may suffer as a result of failure to comply with regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its activities	36
Insurance (Premium) risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities or unearned exposure	37
Insurance (Reserving) risk	The risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events for earned policies, and in the timing and amount of claim settlements	37
Market risk	The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers including interest rates, market prices of assets and liabilities	38-39
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events	39-40
Liquidity risk	The current and prospective risk to earnings or solvency arising from Co-op Insurance's inability to meet its obligations when they come due without incurring unacceptable losses	40-41
Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations	41-43
Pension risk	The risk to Co-op Insurance capital and profitability from Co-operative Financial Services Management Services' (CFSMS's) exposure to the Group Pension Scheme (Pace) due to employees seconded from CFSMS to Co-op Insurance	43
Group risk	The risks that arise through being part of The Co-operative Group	44

*A detailed description of each risk type can be found on pages 36 to 44.

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

The Board

Non-Executive Directors

Peter Hubbard (Chair)	Appointed as Chair in September 2017 (Approved by the Prudential Regulation Authority in November 2017). Experienced general insurance Chief Executive having spent the last 16 years leading AXA and UK General. Prior to joining Co-op Insurance, Peter held a number of Non-Executive roles. Committees: Chair of Nomination Committee.
Caroline Fawcett (Independent Non-Executive Director)	Appointed as a Non-Executive Director in December 2014. BSc (Hons) DipM MCIM. Over 20 years in senior marketing and customer experience roles in the financial services industry and the public sector, most recently as Founder and Lead Consultant for Customer Experience First Ltd. Non-Executive Director of The Money Advice Service and Cambridge & Counties Bank Limited. Committees: Chair of Remuneration Committee and member of Risk Committee and Nomination Committees.
Graham Singleton (Independent Non-Executive Director)	Appointed as a Non-Executive Director in December 2014. BSc, ARCS, FIA. Over 30 years' experience as a qualified actuary in the Financial Services industry, having worked for a range of organisations in senior positions including Actuarial, CFO and CEO roles. Insurance advisor to Apollo Investment Consulting Europe Limited and Amissima Insurance Group, Italy. Currently an Executive Director of Tayam Consulting Limited and Non-Executive Director of Shop Direct Finance Company Limited. Committees: Chair of Audit Committee and member of Risk Committee.
Julie Hopes (Independent Non-Executive Director)	Appointed as a Non-Executive Director in July 2015. Over 20 years' experience in insurance, specialising in General Insurance predominantly in personal lines. Previous roles include Managing Director - General Insurance, Tesco Bank, International Operations and IT Director, Royal and Sun Alliance Insurance, and Managing Director Royal and Sun Alliance Affinity. Non-Executive Director of Police Mutual Assurance Society and West Bromwich Building Society. Committees: Chair of Risk Committee and member of the Audit Committee and Remuneration Committee.
Diane Buckley (Independent Non-Executive Director)	Appointed as a Non-Executive Director in July 2015. Longstanding experience in the insurance industry. Previously worked for Legal & General for 27 years where roles included Managing Director of General Insurance and Group Protection divisions. Committees: Member of the Audit Committee, Risk Committee and Nomination Committee.
Alistair Asher (Non-Executive Director)	Appointed as a Non-Executive Director in December 2014. LLB. Previously General Counsel of Co-operative Group Limited. Solicitor with over 30 years' experience of a wide range of commercial and corporate finance transactions. Previously Global Head of Financial Institutions Group, Allen & Overy LLP. Chair of Co-operative Legal Services Limited and Director of Co-operative Trust Corporation Limited.
David Lister (Independent Non-Executive Director)	Appointed as a Non-Executive Director in December 2014 (Resigned 26 February 2018). Over 35 years experience of technology and transformation working in senior roles in a wide range of industries, most recently Group Chief Information Officer for National Grid. Non-Executive Director of HSBC Bank plc, Nuffield Health, The Tech Partnership, FDM Group (Holdings) Plc and Weathersby's Ltd. Committees: Member of Remuneration and Risk Committees. Chair of Transformation Committee until the Committee ceased in October 2017.

Directors' report

The Board

Executive Directors:

Mark Summerfield (Chief Executive Officer)	Appointed as an Executive Director in April 2013. BA (Hons) (Econ), ACII. Over 30 years Financial Services experience. Joined Co-op Group in April 2004 having previously worked for Fleming & Co, Prudential plc, MISYS plc and Phoenix Assurance plc, in a variety of management roles. Non-Executive Director of Reclaim Fund Ltd and International Co-operative and Mutual Insurance Federation.
Damien Duffy (Chief Financial Officer)	Appointed as an Executive Director in July 2017. BA (Hons), FCCA. Over 20 years experience in Finance and Operational roles in Insurance. Previously worked for Aviva plc, roles included Global General Insurance Director, Managing Director for Corporate and Speciality Risk and CFO for Corporate and Speciality Risk.

- Neil McKenzie served as a Non-Executive Director, Senior Independent Director and Chair of the Risk Committee until 31 August 2017.
- Bob Newton served as Chair until 24 August 2017.

Corporate Governance Report

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

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

Leadership
The Board is responsible for leading and providing direction by determining the strategy for Co-op Insurance, consistent with its purpose. The strategy is set in the context of the wider Co-op Group (the "Group") strategy.

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

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

Board Composition
Co-op Insurance has 8 Directors, 6 of whom (including the Chair) are Non-Executive. The Board will continue to review the balance of Executive and Non-Executive Directors on a regular basis to ensure the Board remains appropriately constituted.

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

The Directors that held office during the financial year are listed below. Their appointments were for the full period unless otherwise stated.

Non-Executive Directors:
Peter Hubbard (Chair) (Appointed 21 September 2017, Regulatory approval granted 30 November 2017) Caroline Fawcett Graham Singleton Julie Hopes Diane Buckley Alistair Asher Bob Newton (Chair) (Resigned 24 August 2017) Neil McKenzie (Senior Independent Director) (Resigned 31 August 2017) David Lister (Non – Executive Director) (Resigned 26 February 2018)
Executive Directors:
Mark Summerfield (Chief Executive Officer) Damien Duffy (Chief Financial Officer) (Appointed 1 July 2017)
Secretary:
Katy Arnold

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

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

Non-Executive Director

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

Executive Director

- Manages the day-to-day business of Co-op Insurance.
- Proposes a purpose and strategy to the Board, in line with the Values and Principles of Co-op Insurance.
- Proposes an annual operating plan to the Board in line with the strategy and delivery against this.
- Implements the decisions of the Board.
- Responsible for the successful leadership and management of the finance function and financial risks.
- Provides specialist knowledge and experience to the Board.

Secretary

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

Appointment and Re-appointment of Directors

In accordance with the Co-op Insurance's constitutional documents ('the Rule Book'), appointments to the Board are made by the Board of Directors. The Group is also entitled to appoint an individual holding an executive position within the Co-operative Group to the Board. This position was held by Alistair Asher until he left the Group on 31 December 2017. Whilst Alistair has remained on the Board as a Non-Executive Director, the Group has not exercised its entitlement to make a new appointment.

The Group is responsible for appointing the Chair of the Board and may also select a Deputy Chair. No Director currently occupies the position of Deputy Chair or Senior Independent Director.

Peter Hubbard was appointed as Chair of the Board during the year following a robust selection process. The process was led by the Group with support of independent executive search consultants. Following his appointment, Peter undertook a comprehensive induction programme.

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

The 2018 AGM will be held on 22 May 2018. Caroline Fawcett and Peter Hubbard will be submitted for re-appointment.

Board Committees

To assist the Board in carrying out its functions and to ensure that there is independent oversight of internal controls and risk management, the Board delegated certain responsibilities to five principal Board Committees during the year; the Audit Committee, the Risk Committee, the Remuneration Committee, the Transformation Committee (ceased 19 October 2017) and the Nomination Committee. Membership of these Committees consists entirely of Non-Executive Directors. The role of each Committee can be found on pages 12 to 14.

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

Operation of the Board

The Board continues to meet on a monthly basis (excluding August) and there were 11 principal Board meetings held during the financial year.

In the case of a Director being unable to attend a meeting, the relevant Chair received a satisfactory reason for their absence. All Directors receive papers for Board and Committee meetings via a Board Portal which is accessed via their iPad. Those unable to attend are invited to submit their views to the Chair in advance of the meeting. Private sessions of the Board and Committees are scheduled as required.

Operation of the Board (continued)
The table below sets out attendance at the principal Board and Committee meetings:

	Board	Audit Committee	Risk Committee	Transformation Committee	Remuneration Committee	Nomination Committee
TOTAL MEETINGS 2017	**11**	**7**	**5**	**9**	**5**	**2**
Peter Hubbard	4(4)	-	-	-	-	1(1)
David Lister	11(11)		4(5)	9(9)	5(5)	-
Caroline Fawcett	11(11)	-	5(5)	8(9)	5(5)	1(1)
Graham Singleton	11(11)	7(7)	5(5)	8(9)	-	-
Julie Hopes	11(11)	7(7)	-	8(9)	5(5)	-
Diane Buckley	11(11)	6(7)	5(5)	-	-	2(2)
Alistair Asher	11(11)	-	-	9(9)	-	-
Mark Summerfield	11(11)	-	-	-	-	-
Damien Duffy	4(5)	-	-	-	-	-
Bob Newton (Chair)	7(7)	-	-	-	-	2(2)
Neil McKenzie	6(7)	4(5)	3(3)	-	-	1(2)

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

Board Effectiveness

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

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

Throughout 2017 the Board continued to hold collective training sessions which were scheduled to take place the evening prior to Board meetings. An electronic 'Resources Centre' is available to enable Directors to access, revisit and review copies of presentations and materials from these sessions.

Board & Committee Evaluations
During January 2018, the Board conducted a 360 degree feedback exercise as part of the Annual Fit and Proper assessments. The process, led by the Chair, involved the Board evaluating each Director on key areas such as preparation for meetings, contribution, communication and culture within the Boardroom and the identification of any training or development needs. The evaluation was facilitated through a tailored 360 degree questionnaire and the individual results were discussed by the Chair with each individual Director.

Independent Audit Limited, a corporate governance specialist, were appointed in December 2017 to conduct an externally facilitated Board Effectiveness review which will be completed in H1 2018.

Board Diversity
The Board adopted a Board Diversity Policy in March 2017. The Board does not consider it would be appropriate to set targets as all appointments must be made on merit. However, the policy sets out an aim to ensure the Board composition is reflective of the communities which Co-op Insurance serves. The Board will therefore seek to ensure an appropriate balance of diversity in its broadest sense including (but not limited to) diversity of gender, ethnicity, sexual orientation, age, religion and geography.

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

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

Of the 6 Non-Executive Directors, the Board considers 5 to be independent within the criteria set out in the UK Corporate Governance Code: David Lister, Caroline Fawcett, Graham Singleton, Julie Hopes and Diane Buckley. The assessment of independence is based on the fact that each of these Directors has served less than nine years in their current role, receives no additional benefits from Co-op Insurance or the Group, and has not previously held an executive role within Co-op Insurance or the Group. The Board believes that there are no current or past matters which are likely to affect their independent judgement. In accordance with the UK Corporate Governance Code, Peter Hubbard was considered independent on appointment.

Alistair Asher did not meet the test of independence during the financial year given his role on the Group Executive.

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

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

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

Insurance and Indemnities
Co-op Insurance maintains appropriate Directors' and Officers' liability insurance cover through the Group in respect of legal action against its Directors and Officers. The insurance cover was renewed in June 2017.

Directors Remuneration
The table below sets out the fees paid to the Non-Executive Directors of Co-op Insurance for the year ended 31 December 2017.

In accordance with the Rule Book (Rule 7.12), Alistair Asher was not entitled to receive any fees in respect of his appointment. The remuneration for Alistair Asher as a Group Executive will be appropriately disclosed in the 2017 Group Report & Accounts.

Fees for the year ended 31 December 2017 were set at £42,500 per annum for Non-Executive Directors and the Chair's fee was set at £117,500 per annum.

	Notes	2017 Fees (£000)	2016 Fees (£000)
Peter Hubbard (Chair) Appointed September 2017	1	33.9	-
Caroline Fawcett	2	50	50
Graham Singleton	3	52.5	52.5
David Lister	4	52.5	52.5
Diane Buckley	-	42.5	42.5
Julie Hopes	5	45.7	42.5
Bob Newton (Chair) (Resigned August 2017)	6	105.3	115.6
Neil McKenzie (Senior Independent Director) (Resigned August 2017)	7	38.3	57.5

Notes:
1. Peter Hubbard acted as Chair with effect from September 2017 at an annual fee of £117,500.
2. Caroline Fawcett acted as Chair of the Remuneration Committee during the period and the associated fee of £7,500 per annum is included above.
3. Graham Singleton acted as Chair of the Audit Committee during the period and the associated fee of £10,000 per annum is included above.
4. David Lister acted as Chair of the Transformation Committee until 19 October 2017. David received three months payment in lieu following cessation of the Committee, therefore remunerated until January 2018. The associated fee of £10,000 per annum is included above.
5. Julie Hopes acted as Chair of the Risk Committee from September 2017 and the associated fee of £10,000 per annum is included above.
6. Bob Newton resigned with effect from 24 August 2017 and was remunerated until November 2017.
7. Neil McKenzie acted as Chair of the Risk Committee and Senior Independent Director until 31 August 2017 and the associated fees of £10,000 and £5,000 pro rata are included above.

Audit Committee
The purpose of the Audit Committee is to assist the Board in discharging its responsibilities, namely: monitoring the integrity of the financial statements including annual reports and any other formal announcement relating to its financial performance, to review and challenge the effectiveness of internal controls and risk management systems including assurance reports, and to monitor the effectiveness and objectivity of internal and external auditors along with approval of the Internal Audit Plan. The Audit Committee will also review procedures for investigating and handling allegations from whistle blowers and agree an overall approach for the annual reserving cycle. The Board is satisfied that the Internal Audit function had sufficient resources during the year to undertake its duties.

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

The Committee held 7 meetings during the year.

Audit Committee (continued)

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

Audit Committee Member
Graham Singleton (Chair)
Diane Buckley
Julie Hopes
Neil McKenzie (Resigned August 2017)

A resolution was passed at the Group's 2017 AGM to reappoint Ernst & Young LLP as the auditors of the Group and its subsidiaries. A further resolution will be proposed at the Group's 2018 AGM to re-appoint Ernst & Young LLP as the Group's auditors and to determine its remuneration for the forthcoming year.

Risk Committee

The purpose of the Risk Committee is to oversee and advise the Board on Co-op Insurance's risk appetite and the overall Risk Management Framework, taking a forward looking perspective and anticipating changes in business conditions.

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

The Committee held 5 meetings during the financial year.

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

Risk Committee Member
Julie Hopes (Chair) (Appointed September 2017)
Caroline Fawcett
Graham Singleton
Diane Buckley
Neil McKenzie (Chair) (resigned August 2017)
David Lister (resigned February 2018)

Remuneration Committee

The purpose of the Remuneration Committee is to determine and oversee the Remuneration Policy for Co-op Insurance in respect of its Executive and Key Function Holders. Reward and remuneration arrangements for other colleagues are maintained by the Group, with appropriate input from the Committee.

The Committee held 5 meetings during the year.

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

Deloitte replaced New Bridge Street (an Aon Hewitt company) as the Committee's remuneration advisors in December 2017.

Deloitte were also appointed as the Group's new remuneration advisors during the year. For the purposes of avoiding conflicts of interest, Deloitte confirmed on appointment that it would treat each entity as a separate client and would not share any unpublished information. Co-op Insurance has a separate statement of work with Deloitte.

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

Remuneration Committee Member
Caroline Fawcett (Chair)
Julie Hopes
David Lister (resigned February 2018)

Transformation Committee

The purpose of the Transformation Committee was to oversee Co-op Insurance's transformation programme and advise and make recommendations to the Board and Executive regarding related material matters and their impact on the delivery of the Strategic Plan.

The Committee held 9 meetings during the period up to 19 October 2017 when the Committee ceased.

Meetings of the Transformation Committee were generally attended by the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Head of Internal Audit, Chief Information Officer and relevant members of the Transformation Programme although none attended as of right. In addition representatives from IBM and PA Consulting attended, as deemed appropriate.

Transformation Committee (continued)

The Committee members during the period are listed below. Their appointments were for the period 1 January 2017 to 19 October 2017, unless stated.

Transformation Committee Member (ceased 19 October 2017)
David Lister (Chair) (resigned February 2018)
Graham Singleton
Caroline Fawcett
Alistair Asher
Julie Hopes

Nomination Committee

The purpose of the Nomination Committee is to review and make recommendations on the Board composition, succession planning for Executive Directors, Non-Executive Directors and the Executive members, identify and nominate candidates for Board vacancies, and evaluation of candidates for the Board.

The Committee met twice during the year.

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

Nomination Committee Member
Peter Hubbard (Appointed October 2017)
Diane Buckley
Caroline Fawcett (Appointed October 2017)
Bob Newton (Chair) (Resigned August 2017)
Neil McKenzie (Resigned August 2017)

Report of the Board of Directors

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

Results and Dividends
The financial statements set out the results of Co-op Insurance for the year ended 31 December 2017 and are shown on page 21 to 25. The Directors did not propose any dividend payment in the period.

Political Donations
There were no political donations during the year.

Directors' Details
The Directors biographies are provided on pages 7 and 8.

Details of appointments and resignations during the financial year, and changes since the end of the financial year are provided on page 9.

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

Corporate responsibility and the environment
The Group 2017 Annual Report contains details of how the Group, including Co-op Insurance, manages its social, ethical and environmental impacts.

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

Statement of Going Concern
The Annual Report and Accounts are prepared on a going concern basis and the Directors are satisfied that Co-op Insurance has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions including future profitability, cash flows and capital resources. Further information relevant to the assessment is provided within the basis of preparation of the Annual Report and Accounts on page 26.

In considering the appropriateness of the going concern basis, the Directors have reviewed Co-op Insurance's ongoing commitments for the next 12 months and beyond within the detailed assessment noted within the Viability Statement below. As the Directors have a reasonable expectation that business is viable over the longer three year horizon, it is therefore deemed appropriate that the going concern basis is appropriate for the preparation of the 2017 Annual Report and Accounts.

Viability Statement
The business activities of Co-op Insurance, together with its financial performance and the factors likely to affect its future development and performance are set out in the Strategic Report on pages 2 to 6.

The principal risks facing Co-op Insurance, and the processes that have been adopted to manage them are set on pages 36 to 44. These include insurance, market and operational risk.

The viability assessment uses a three year time horizon, from 2018 to 2020, and is based upon the strategic planning cycle. The assessment is made with a risk focus and uses stress simulation to model a range of scenarios and outcomes. These simulations are used to produce profitability, liquidity and capital projections to drive an overall view on viability over the chosen time horizon.

As well as the 2018 strategic plan, the assessment process has considered a number of emerging risks (see Risks on pages 36 to 44). The assessment also considers a range of specific management actions which could be taken if required to mitigate potential adverse outcomes to the base plan of the business, focussing on the maintenance of capital requirements over the review horizon.

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

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

The Board has established a management structure with defined lines of responsibility and clear delegation of authority. The control framework cascades through the business, detailing clear responsibilities for ensuring appropriate controls are in place at an operational level, including controls relating to the financial reporting process. Co-op Insurance's approach to Risk Management is set out in further detail on pages 33 to 44.

Report of the Board of Directors

Risk Management and Internal Controls (continued)

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

On behalf of the Board, the Audit Committee regularly review the effectiveness of Co-op Insurance's internal control systems. Its monitoring covers all material controls. Principally it reviews and challenges on an ongoing basis, reports from management, the internal audit function and the external auditors. This enables it to consider how to manage or mitigate risk in line with Co-op Insurance's risk strategy. The Audit Committee did not identify or report any material failings to the Board in 2017.

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

Annual Report and Accounts

So far as the Directors are aware, there is no relevant audit information of which Co-op Insurance's auditors are unaware, and the Directors have taken all appropriate steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that Co-op Insurance's auditors have been made aware of that information.

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

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

Co-operative and Community Benefit Society Law, as modified by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 ('the Regulations'), requires the Directors to prepare accounts for each financial year. In accordance with the Regulations, the Directors have elected to prepare Co-op Insurance accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

As required by Law, the Directors must not approve the report and accounts unless they are satisfied that they give a true and fair view of the state of affairs of Co-op Insurance and of its profit or loss for that period. In preparing these accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the accounts on a going concern basis unless it is appropriate to presume that Co-op Insurance will not continue in business.

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

The Directors are responsible for keeping adequate accounting records that disclose, with reasonable accuracy, at any time, the financial position of Co-op Insurance and enable them to ensure that its accounts comply with the regulations. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of Co-op Insurance and to prevent and detect fraud and other irregularities.

Under applicable law, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that comply with the Regulations.

The Directors are responsible for the maintenance and integrity of the financial information included on the Co-op Insurance website. Legislation in the UK governing the preparation and dissemination of annual report and accounts may differ from legislation in other jurisdictions.

By order of the Board
Katy Arnold, Secretary
CIS General Insurance Limited
Miller Street
Manchester
M60 0AL

5 April 2018

Opinion

We have audited the financial statements of CIS General Insurance Limited ('Co-op Insurance' or 'the Company') for the year ended 31 December 2017 which comprise the Consolidated and Society Income Statement, the Consolidated and Society Statement of Comprehensive Income, the Consolidated and Society Statement of Financial Position, the Consolidated and Society Statement of Cash Flows, the Consolidated and Society Statement of Changes in Equity and the related notes 1 to 30, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of Co-op Insurance's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which apply the provisions of chapters 4 and 5 of part 15 of the Companies Act 2006; and
- have been properly prepared in accordance with the provisions of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which modify and apply the Co-operative and Community Benefit Societies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of Co-op Insurance in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to Co-op Insurance's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied by the Company and as modified by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 and to facilitate compliance with section 495 of the Companies Act 2006 and section 87 of the Co-operative and Community Benefits Societies Act 2014. Our audit work has been undertaken so that we might state to Co-op Insurance's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Co-op Insurance and Co-op Insurance's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Co-op Insurance's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Inappropriate setting of claims reserves (specifically IBNR) and unjustified basis for recognition and measurement of management margin *Refer to Accounting policies (page 27); and Note 22 (page 57)* The setting of insurance contract liabilities (£438.2m net of reinsurance) is inherently uncertain and has a material impact on the reported results. The subjectivity in setting the Best Estimate on both a gross and net basis and the recognition of a margin makes the liabilities susceptible to the risk of management over-ride. In addition to the subjectivity in the projections themselves, management carries a margin intended to bring the reserves to within the Board risk appetite of a 70-80% confidence level. The adopted reserve is highly judgemental as the margin is held to recognise liabilities and uncertainties that have not manifest through the available data.	Supported by our actuarial specialists, and using management's own data, we independently projected, on both a gross and net basis, the Best Estimate and a range of reasonable estimates. We investigated significant differences between our projections and management's Best Estimate at each reserving class. In addition we challenged the level of margin held compared to market practice, prior periods and in the context of the areas of uncertainty for which the margin is held. We also tested, on a sample basis, that the reinsurance recoveries were recorded in line with the underlying contract terms.	We concluded that the data used for the purposes of the actuarial projections was consistent with the underlying policy records. Taken as a whole we consider the judgments applied in setting the Best Estimate reserves to be reasonable. We consider the booked reserves (i.e. the Best Estimate plus margin) to lie within a range of reasonable estimates on both a gross of reinsurance and a net of reinsurance basis.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for Co-op Insurance. This enables us to form an opinion on the financial statements. We take into account the size, the risk profile, the organisation of Co-op Insurance and effectiveness of controls, including controls and changes in the business environment, when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for Co-op Insurance to be £2.9 million (2016: £3.1million) , which is 1% (2016: 1%) of net assets. As the entity has a history of losses we believe that net assets provides us with the appropriate basis that will enable us to identify misstatements that may influence the users of the financial statements.

During the course of our audit, we reassessed initial materiality and concluded that it remained appropriate.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of Co-op Insurance's overall control environment, our judgement was that performance materiality was 50% (2016: 50%) of our planning materiality, namely £1.45million (2016: £1.57million). We have set performance materiality at this percentage due to our assessment of the overall control environment.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £145,000 (2016: £157,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 2 to 16, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of Co-op Insurance and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing Co-op Insurance's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit:

- in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and
- in respect to irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the direct laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We obtained a general understanding of how the Company complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board and Executive Risk Committee; and gained an understanding of the Company's approach to governance, demonstrated by the Board's approval of the Company's governance framework and the Board's review of the Group's risk management framework ('RMF') and internal control processes.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.
- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.
- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, including complex transactions, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk, refer to Key Audit Matters section regarding the risk of inappropriate setting of claims reserves. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

We were appointed by the board of directors of The Co-Operative Group, Co-Op Insurance's ultimate parent, as auditor to the Group and its subsidiaries on 21 May 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. Our most recent engagement letter with the Company was dated 22 January 2018.

The period of total uninterrupted engagement including previous renewals and reappointments is 2 years, covering the years ending 31 December 2016 to 31 December 2017.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to Co-op Insurance and we remain independent of Co-op Insurance in conducting the audit.

- The audit opinion is consistent with the additional report to the audit committee.

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

Notes:
1. The maintenance and integrity of the CIS General Insurance Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated and Society Income Statement

For the year ended 31 December 2017
All amounts are stated in £m unless otherwise indicated

	Notes	2017	2016
Income			
Gross earned premiums		**489.8**	466.5
Less premiums ceded to reinsurers		**(158.5)**	(27.5)
Net earned premiums	3	**331.3**	439.0
Fee and commission income	4	**59.7**	13.0
Investment income	5	**12.6**	13.0
Gains less losses arising from financial instruments	6	**2.8**	1.4
Net income		**406.4**	466.4
Claims paid		**(331.9)**	(321.0)
Less amounts receivable from reinsurers		**52.1**	8.7
Net policyholder claims and benefits paid	7	**(279.8)**	(312.3)
Change in insurance contract liabilities	22c	**(10.3)**	33.1
Change in reinsurance assets	22c	**53.9**	(14.7)
Net policyholder claims and benefits incurred		**(236.2)**	(293.9)
Fee and commission expenses	8	**(26.6)**	(27.1)
Other acquisition expenses	9	**(38.3)**	(35.9)
Administration expenses	9	**(94.6)**	(98.3)
Finance costs		**(8.6)**	(8.6)
Profit/(loss) before transformation costs and taxation		**2.1**	2.6
Costs in respect of business transformation	9	**(23.0)**	(28.8)
Loss before taxation		**(20.9)**	(26.2)
Income tax	11	**4.0**	5.5
Loss for the financial year		**(16.9)**	(20.7)

Consolidated and Society Statement of Comprehensive Income

For the year ended 31 December 2017
All amounts are stated in £m unless otherwise indicated

	Notes	**2017**	2016
Loss for the financial year		**(16.9)**	(20.7)
Net changes in fair value in available for sale assets		**(3.1)**	16.7
Net gains transferred to the income statement for available for sale assets		**(2.8)**	(1.4)
Income tax	23	**1.1**	(2.6)
Other comprehensive Income/(expense) for the financial year, net of income tax		**(4.8)**	12.7
Total comprehensive (expense) for the financial year		**(21.7)**	(8.0)

Consolidated and Society Statement of Financial Position

For the year ended 31 December 2017
All amounts are stated in £m unless otherwise indicated

	Notes	2017	2016
Assets			
Property, plant and equipment	12	**0.7**	0.8
Intangible assets	13	**1.6**	1.6
Deferred acquisition costs	14	**30.0**	30.7
Reinsurance assets	22	**58.5**	53.5
Financial investments at fair value through income or expense	15	**197.2**	225.9
Available for sale assets	16	**664.6**	687.7
Current tax assets	23	**8.5**	14.3
Insurance receivables and other assets	17	**204.5**	183.7
Cash and cash equivalents	18	**15.2**	-
Total assets		**1,180.8**	1,198.2
Capital and reserves attributable to equity holders			
Share capital	19	**268.0**	268.0
Retained earnings	20	**(46.4)**	(29.5)
Other reserves	20	**71.3**	76.1
Total equity		**292.9**	314.6
Liabilities			
Insurance contract liabilities	22	**749.9**	723.4
Borrowed funds	21	**67.9**	67.7
Deferred tax liabilities	23	**5.6**	7.0
Reinsurance liabilities	24	**3.8**	6.6
Insurance and other payables	25	**54.8**	73.1
Overdrafts	18	**5.9**	5.8
Total liabilities		**887.9**	883.6
Total equity and liabilities		**1,180.8**	1,198.2

Approved by the Board of Directors on 5 April 2018 and signed on its behalf by:

Peter Hubbard, Chairman

Mark Summerfield, Chief Executive Officer

Katy Arnold, Secretary

Consolidated and Society Statement of Cash Flows

For the year ended 31 December 2017
All amounts are stated in £m unless otherwise indicated

	Notes	2017	2016
Cash flows from operating activities			
Loss before taxation		**(20.9)**	(26.2)
Adjustment for:			
Interest payable		**8.6**	8.6
Fixed asset depreciation		**0.1**	0.1
Intangible asset depreciation		**-**	0.1
Investment income		**(12.6)**	(13.0)
Gains less losses arising from financial instruments		**(2.8)**	(1.4)
Decrease/(increase) in deferred acquisition costs		**0.7**	(2.6)
Decrease/(increase) in reinsurance assets		**(5.0)**	15.0
Net purchases/proceeds of sale of financial instruments at value through income and expense		**28.7**	(26.8)
Decrease/(increase) in insurance receivables and other assets		**(21.4)**	36.2
(Decrease)/increase in insurance contract liabilities		**26.5**	(22.8)
Decrease in reinsurance liabilities		**(2.8)**	(0.8)
Investment interest received		**21.7**	22.9
Net purchases/proceeds of sales on investments held as available for sale		**11.6**	11.0
(Decrease)/increase in insurance and other payables		**(18.3)**	6.0
Income tax paid	23	**9.4**	-
Net cash flows from operating activities		**23.5**	6.3
Cash flows from investing activities			
Purchase of tangible fixed assets		**-**	(0.1)
Purchase of intangible fixed assets		**-**	-
Net cash flows from investing activities		**-**	(0.1)
Cash flows from financing activities			
Interest paid		**(8.4)**	(8.4)
Net cash flows from financing activities		**(8.4)**	(8.4)
Net (decrease)/increase in cash and cash equivalents		**15.1**	(2.2)
Cash and cash equivalents at the beginning of the financial year		**(5.8)**	(3.6)
Cash and cash equivalents at the end of the financial year	18	**9.3**	(5.8)

Cash flows from operating activities

Co-op Insurance classifies the cash flows for the acquisition and disposal of financial assets as operating cash flows. This is because purchases are funded from the cash flows associated with the origination of insurance contracts, net of the cash flows for payments of claims incurred for insurance contracts, which are classified under operating activities.

Consolidated and Society Statement of Changes in Equity

For the year ended 31 December 2017
All amounts are stated in £m unless otherwise indicated

	Share capital	Available for sale reserve	Capital reserve	Retained earnings	Total
2017					
Balance at the beginning of the financial year	**268.0**	**19.0**	**57.1**	**(29.5)**	**314.6**
Total comprehensive income/(expense) for the financial year:					
Loss for the year	**-**	**-**	**-**	**(16.9)**	**(16.9)**
Other comprehensive income	**-**	**(4.8)**	**-**	**-**	**(4.8)**
Balance at the end of the financial year	**268.0**	**14.2**	**57.1**	**(46.4)**	**292.9**
2016					
Balance at the beginning of the financial year	268.0	6.3	57.1	(8.8)	322.6
Total comprehensive (expense)/income for the financial year:					
Loss for the year	-	-	-	(20.7)	(20.7)
Other comprehensive income	-	12.7	-	-	12.7
Balance at the end of the financial year	268.0	19.0	57.1	(29.5)	314.6

1. Basis of preparation and significant accounting policies

CIS General Insurance Limited is a co-operative society registered in England under the Co-operative and Community Benefit Societies Act 2014 and not a company registered under the Companies Act. The annual report and accounts were authorised for issue by the Board of Directors on 6 April 2018.

Statement of compliance

The annual report and accounts have been prepared in accordance with the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which modify and apply the Co-operative and Community Benefit Societies Act 2014. The Regulations require Co-op Insurance to prepare its annual report and accounts substantially as though it were a company registered under the Companies Act 2006 (the Act), and apply, with certain exemptions, the provisions of Parts 15 and 16 of the Act.

Basis of preparation

The annual report and accounts have been prepared on a going concern basis and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) guidance, as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU).

The financial information has been prepared under the historic cost convention as modified by available for sale financial assets and other financial assets and financial liabilities held at fair value. Co-op Insurance applies the recognition, measurement and disclosure requirements of IFRS in issue that are endorsed by the EU and are effective for accounting periods beginning on or after 1 January 2017.

Basis of consolidation

The consolidated financial statements comprise the financial statements of CIS General Insurance Limited and its subsidiary, Co-operative Insurance Services Limited.

Co-operative Insurance Services Limited did not trade in the period and was capitalised with £100k of cash by CISGIL. As such the difference between the consolidated statements of CIS General Insurance Limited and separate financial statements would be immaterial.

As a result, only one set of financial statements, being the consolidated CIS General Insurance Limited Financial Statements, have been presented.

Adoption of new and revised standards

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

Standards and interpretations issued but not yet effective

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

  In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

  The entity meets the eligibility criteria of the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) of annual reporting periods beginning on or after 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments.

  The entity is able to apply the temporary exemption from IFRS 9 as it has not previously applied any version of IFRS 9 and its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

  In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts.

  In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

  IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group plans to adopt the new standard on the required effective date together with IFRS 9.

All amounts are stated in £m unless otherwise indicated

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

Standards and interpretations issued but not yet effective (continued)

- IFRS 15 'Revenue recognition'

  IFRS 15 was issued in May 2014 (required for annual periods beginning on or after 1 January 2018) and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  The new revenue standard will supersede all current revenue recognition requirements under IAS 18. Given insurance contracts are scoped out of IFRS 15, the entity expects the main impact of the new standard to be on the accounting for income of commission income, although the impact is not expected to be significant.

- IFRS 16 'Leases'

  IFRS 16 was issued in January 2016 (effective for annual periods beginning on or after 1 January 2019) and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

  IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The impact is not expected to be significant.

Use of estimates and judgments

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

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

Information about significant areas of critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the annual report and accounts, are described within the significant accounting policies below.

Information about estimation uncertainty, that has the most significant effect on the amounts recognised in the annual report and accounts, relates to the determination of the ultimate liability arising from claims made under insurance contracts. Details of the methodology, key assumptions and sensitivities are provided in note 22 (b). Additionally further reference is made within the risk management section in relation to insurance risk on page 37.

In deriving the fair value of assets and liabilities the methods and assumptions used by the society are detailed within the fair values of financial assets and liabilities in note 30 (pages 67 to 70).

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these annual report and accounts. The accounting policies are split between insurance and non-insurance specific accounting policies and insurance accounting policies. The insurance accounting policies are detailed in accounting policy 14 on pages 31 and 32. The major methods and assumptions used in estimating the fair values of financial instruments are detailed in note 30.

(1) Property, plant and equipment

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

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

• Computer equipment	3 – 10 years
• Furniture and equipment	5 – 10 years

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

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

(2) Intangible assets

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

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

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

Significant accounting policies (continued)

(2) Intangible assets (continued)

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

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

(3) Financial instruments

Co-op Insurance classifies its financial assets (excluding derivatives) as either:

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

i) Recognition of financial assets and financial liabilities

Financial assets are recognised by Co-op Insurance on the trade date which is the date it commits to purchase the instruments. Loans are recognised when the funds are advanced.

All other financial instruments are recognised on the date that they are originated.

ii) Derecognition of financial assets and financial liabilities

Financial assets are derecognised when there is a qualifying transfer and:

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

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing liability is replaced by the same counterparty on substantially different terms or the terms of an existing liability are substantially modified, the original liability is derecognised and a new liability is recognised, with any difference in carrying amounts recognised in the income statement.

iii) Financial assets classified as available for sale

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

Subsequent valuation is at fair value with movements recognised in other comprehensive income as they arise, interest is recognised on the effective interest rate basis in the income statement, refer to accounting policy note 9 (page 30) for further details. Where there is evidence of impairment, the extent of any impairment loss is recognised in the income statement. For further information refer to accounting policy note 3(vii) on page 29. An effective interest rate for each holding is calculated on initial recognition and subsequently recognised in the income statement over the lifetime of the bond.

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

iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and Co-op Insurance does not intend to sell immediately or in the near term. For Co-op Insurance this includes insurance premium debt receivables but excludes salvage and subrogation. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently these are measured at amortised cost. The amortised cost is the initial amount at recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, less impairment provisions for incurred losses.

v) Financial investments at fair value through income or expense

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

Subsequent valuation is at fair value with changes in fair value being recognised in gains less losses within the income statement in the period in which they arise. Where there is no active market or the investments are unlisted, the fair values are based on commonly used valuation techniques.

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

Significant accounting policies (continued)

(3) Financial instruments (continued)

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

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

vii) Impairment of financial assets

Assessment
At the statement of financial position date, Co-op Insurance assesses its financial assets not carried at fair value through income or expense for objective evidence that an impairment loss has occurred.

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

Measurement
Any impairment losses on assets classified as available for sale, and those carried at amortised cost, are recognised immediately through the income statement. The amount of the loss is the difference between:

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

Impairment of financial assets classified as available for sale
Impairment losses are recognised by transferring the cumulative loss that has been recognised through other comprehensive income to the income statement.

When a subsequent event causes the amount of impaired loss on available for sale investment securities to decrease, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement.

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

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

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

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

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

(4) Sale and repurchase arrangements
Co-op Insurance participates in reverse sale and repurchase transactions whereby Co-op Insurance buys gilts but is contractually obliged to sell them at a fixed price on a fixed future date. Cash loaned under reverse repo arrangements are classified as deposits with credit institutions within financial investments at fair value through income or expense on the statement of financial position.

(5) Cash and cash equivalents
Cash and cash equivalents comprises cash balances and balances with a maturity of three months or less from the acquisition date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Banking facilities that are repayable on demand and form an integral part of Co-op Insurance cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

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

Significant accounting policies (continued)

(6) Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

IFRS 4 prohibits the offsetting of reinsurance assets against the related insurance liabilities, unless the appropriate legal requirements are met. Financial assets and liabilities arising under the quota share arrangements are offset and the net amount reported in the statement of financial position as there is a legally enforceable right to set off the amounts, and there is an intention to settle on a net basis. The contractual terms of the new funds-withheld quota share agreement require such a set-off of associated amounts.

(7) Impairment of non-financial assets

The carrying value of Co-op Insurance's non-financial assets, excluding deferred tax assets and reinsurance assets, are reviewed at the statement of financial position date to determine whether there is any indication of impairment. If impairment is indicated, the asset's recoverable amount (being the greater of fair value less cost to sell and value in use is assessed by reference to discounted future cash flows) is estimated.

An impairment loss is recognised in the income statement to the extent that the carrying value of an asset exceeds its recoverable amount. An impairment loss is reversed if there has been an increase in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent of the asset's carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(8) Provisions

A provision is recognised in the statement of financial position if Co-op Insurance has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(9) Revenue recognition

Revenue principally comprises:

Premium income from insurance contracts

Co-op Insurance's accounting policy in respect of revenue arising from insurance contracts is set out within the insurance specific accounting policy note 14(i) on page 31.

Investment income

Interest income on financial assets designated as available for sale and loans and receivables are recognised within investment income on an effective interest rate (EIR) basis, inclusive of directly attributable incremental transaction costs and fees, and discounts and premiums where appropriate.

The EIR basis spreads the interest income over the expected life of the instrument. The EIR is the rate that, at inception of the instrument, exactly discounts expected future cash payments and receipts through the expected life of the instrument back to the initial carrying amount. When calculating EIR, Co-op Insurance estimates cash flows considering all contractual terms of the instrument (for example prepayment options) but does not consider future credit losses.

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

Fee and commission income

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

Profit commission due under reinsurance arrangement

Profit commission due under reinsurance arrangements is recognised in the income statement in line with the associated premiums ceded and ceded incurred claim costs, in accordance with the contractual terms which they are subject.

(10) Fee and commission expenses

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

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

Significant accounting policies (continued)

(11) Income tax

Tax in the income statement for the year comprises current and deferred tax, which is recognised in the income statement except to the extent that it relates to items in other comprehensive income, in which case it is recognised in the statement of comprehensive income.

Current tax

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

Deferred tax

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

The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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

(12) Foreign currencies

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

(13) Dividends to shareholders

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

(14) Insurance accounting policies

Contracts under which Co-op Insurance accepts significant insurance risk from another party (the policyholder), by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. A contract that qualifies as insurance remains an insurance contract until all the risks and obligations are extinguished or expire.

All contracts of general insurance business written by Co-op Insurance are classified as insurance contracts. General insurance business is accounted for on an annual basis.

i) Premiums

Gross written premiums comprise premiums receivable on those contracts which incepted during the financial year, irrespective of whether they relate in whole or in part to a later accounting period, together with any adjustments in the accounting period relating to premium receivable in respect of business written in prior periods.

Gross written premiums:

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

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

ii) Unearned premium provision

For general insurance business, the proportion of written premiums relating to periods of risk beyond the year end is carried forward to future accounting periods. The relevant proportion is calculated using the daily pro rata basis.

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

iii) Claims incurred

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

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

Significant accounting policies (continued)

(14) Insurance accounting policies (continued)

iv) Claims outstanding

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

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

Aggregate claims provisions, which include attributable claims handling expenses, are set at a level such that no adverse or positive run off deviations are expected. Adverse run off deviations, which are material in the context of the business as a whole, would be separately disclosed in the notes to the annual report and accounts including the claims development tables.

Anticipated reinsurance recoveries and estimates of salvage and subrogation recoveries are disclosed separately within assets under the headings of 'reinsurance assets' and 'insurance receivables and other assets' respectively.

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

v) Unexpired risk provision

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

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

Such provisions seek to ensure that the carrying amount of unearned premiums provision less related deferred acquisition costs is sufficient to cover the current estimated future cash flows, including claims handling expenses and therefore meets the requirements of the liability adequacy test as set out in IFRS 4 (Insurance Contracts).

vi) Acquisition costs

Costs directly associated with the acquisition of new business, including commission, are capitalised and amortised in accordance with the rate at which the gross written premiums associated with the underlying contract are earned.

vii) Reinsurance

Contracts with reinsurers that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same period as the related claim. Premiums, claims and receivables are presented on a gross basis in the income statement and statement of financial position.

Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position date. If objective evidence of impairment exists, reinsurance assets are reduced to the level at which they are considered to be recoverable and an impairment loss is recognised in the income statement.

(15) Costs in respect of business transformation

The costs associated with the programme of activity to strategically transform the business are charged to the income statement as incurred, with recognition of assets where the technical accounting criteria are met.

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

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

2. Risk Management and Capital Management

i)Risk Management

Co-op Insurance issues contracts that transfer insurance risk and is exposed to financial risk through its holdings of financial assets and liabilities. This section summarises these risks and the way Co-op Insurance manages them.

Developments during 2017

Co-op Insurance has a stand-alone Risk Management Framework (RMF) built around the Three Lines of Defence (3LOD) Model, tailored to its risks, governance and processes. The RMF is established, having been in operation for a number of years and understood by the business. Development activity continues to take place to improve all components of the framework and during 2017 the most significant changes were:

- Embedding the Risk Business Partnering Model, thereby strengthening the interaction between the risk function and the business.
- Revising the approach to Risk Policies/Control Standards, thereby reducing complexity and providing greater clarity for the business.
- Enhancing the ability of the Approved Persons to demonstrate and evidence effective oversight through the Senior Insurance Managers Regime accountabilities.

Risk Management Structures

Our approach to risk management

Co-op Insurance operates a RMF that is designed to aid consistent management of risks at all levels in the business in accordance with a 3LOD model. This model ensures appropriate responsibility and accountability is allocated to the identification, measurement, management, monitoring and reporting of risks.

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

The 'Second Line of Defence' is the Chief Risk Officer (CRO) and the Risk function, which is responsible for supporting the CRO with his accountability to the Board to provide oversight of current risk exposures of the business. The CRO owns the RMF, overseeing and challenging its implementation and its operation by the first line of defence, to ensure first line risk responsibilities are executed effectively. The risk function consider the current and emerging risks across Co-op Insurance, providing review and challenge to the risk and controls in place, overseeing the appropriate escalation of risks and providing aggregated risk reporting to Board.

The 'Third Line of Defence' is led by the Head of Internal Audit and independently challenges the overall management of the framework and provides assurance to the Board Audit Committee and senior management on the adequacy of both the first and second line models. Internal Audit is responsible for providing independent, objective assurance that the RMF has been implemented as intended across the business and is embedded and functioning effectively.

Risk assessment of Co-op Insurance

Co-op Insurance has undertaken a robust assessment of the principal risks facing the business. An Own Risks and Solvency Assessment (ORSA) process has been developed, which is an integral component to the strategic planning process. The ORSA report includes a comprehensive picture of the risks that Co-op Insurance is exposed to or could face in the future. These risks are summarised on page 6.

The prospects of Co-op Insurance as at 31 December 2017 have been assessed using the latest information (the 2017 year end position) and the 2018 strategic plan, which was approved by the Co-op Insurance Board in January 2018. Based on this information, Co-op Insurance has adequate capital and liquidity to continue its operation. Indicators which could impact upon its operations have been considered and appropriate management action has been taken where necessary to mitigate issues as identified.

The Co-op Insurance RMF requires the Executive Team to attest that they understand the risks and controls in their area of accountability and support an open risk management culture. In support of the attestation, each Executive and/or RFO is required to undertake a Risk and Control Self-Assessment, which identifies the risks to the achievement of their objectives and the controls in place to mitigate these risks, together with an assessment of the effectiveness of the controls (Design and Performance with appropriate testing of control performance). The Risk and Control Self-Assessments are designed to cover all material controls including financial, operational and compliance controls as well as the minimum requirements set out in Co-op Insurance's risk policies and control standards.

Risk management structure

The Board is responsible for approving the Co-op Insurance strategy, its principal markets and the level of acceptable risks articulated through its statement of risk appetite. The Board is also responsible for overall corporate governance, which includes ensuring that there is an adequate system of risk management in place.

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

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

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

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

All Board committees have Terms of Reference describing the authority delegated to them by the Board, and the Board ensures that each committee is provided with sufficient resources to enable its duties to be undertaken. The main roles and responsibilities of each committee can be found within the Governance Report on pages 12 to 14.

Co-op Insurance has produced a Governance Map which sets out the accountabilities delegated by the CEO to each member of the Executive Team, which are also reflected within their individual job descriptions. These accountabilities are considered in conjunction with delegated authorities, responsibilities as Approved Persons and associated functional accountabilities. In addition to Board level committees, there are a number of Executive Management Committees:

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

- Ensuring the implementation of the risk strategy set by the Board so as to deliver an effective risk management environment for Co-op Insurance.
- Ensuring that all key strategic elements are governed fostering a culture that emphasises and demonstrates the benefits of a risk-based approach to decision making, internal control and management.
- Management of mitigating actions relating to any risks to the strategic direction, plans and business model of Co-op Insurance.

Co-op Insurance Executive Risk Committee (ERC)
The ERC ensures that all key strategic elements of Co-op Insurance are governed, fostering a culture that emphasises and demonstrates the benefits of a risk-based approach to decision making, internal control and management. Responsibilities include:
- Driving the detailed implementation of the Co-op Insurance RMF approved by the Board.
- Providing a mechanism for ensuring that the Co-op Insurance-wide risk and capital management requirements, developments, and processes are in place.
- Reviewing, challenging and recommending for approval the Risk Vision & Strategy, RMF, and risk appetite Statement.
- Reviewing, challenging and recommending for approval risk appetite limits and tolerances.
- Reviewing approaches to stress testing, risk management reporting and governance, and referring them to the Board Risk Committee (BRC) for approval.
- Reviewing the effectiveness of Governance and the RMF, including providing challenge and assurance that all risk and control actions are being managed.
- Monitoring the business's risk profile against the agreed limits and tolerances and reporting on these to the BRC.

Senior Management Committees
Co-op Insurance has other committees that advise and support the CEO and members of the senior management team in carrying out their responsibilities, and provide detailed oversight and monitoring in the following areas:
- Customer.
- Commercial.
- Executive Change Portfolio Committee.
- Capital, Liquidity, Investment and Pension.
- Reserving.
- Data Governance.
- Model Governance.

All amounts are stated in £m unless otherwise indicated

2. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Level 1 Risks

Risks are classified into Level 1 and Level 2 categories. Business activity can be exposed to one or a combination of the following risk types. The Level 1 risks are the highest category of inherent financial and non-financial risks to which Co-op Insurance is exposed:

Risk Type	Definition	Page
Strategic and business risk	The risk of not meeting strategic and business objectives caused by poor or sub-optimal strategy implementation, deployment of resources, decision making, strategic change programmes, economic, regulatory or other environmental factors resulting in lost earnings and capital	36
Reputational risk	The risk associated with an issue which could in some way be damaging to the brand of the organisation among all or any stakeholders	36
Conduct risk	The risk that Co-op Insurance's processes, behaviours, offerings or interactions will result in unfair outcomes for customers	36
Regulatory risk	The risk of regulatory sanctions, regulatory censure, material financial loss, or loss to reputation Co-op Insurance may suffer as a result of failure to comply with regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its activities	36
Insurance (Premium) risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities or unearned exposure	37
Insurance (Reserving) risk	The risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events for earned policies, and in the timing and amount of claim settlements	37
Market risk	The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers including interest rates, market prices of assets and liabilities	38-39
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events	39-40
Liquidity risk	The current and prospective risk to earnings or solvency arising from Co-op Insurance's inability to meet its obligations when they come due without incurring unacceptable losses	40-41
Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations	41-43
Pension risk	The risk to Co-op Insurance capital and profitability from Co-operative Financial Services Management Services' (CFSMS's) exposure to the Group Pension Scheme (Pace) due to employees seconded from CFSMS to Co-op Insurance	43
Group risk	The risks that arise through being part of The Co-operative Group	44

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

2. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Strategic and Business risk

Strategic and Business risk is defined as the risk of not meeting strategic and business objectives caused by poor or sub-optimal strategy implementation, deployment of resources, decision making, strategic change programmes, economic, regulatory or other environmental factors resulting in lost earnings and capital. Strategic risks cover those risks over the longer term time horizon around the strategic plan. They align to the strategic risk profile. Business risks are in year performance against plan, and align to the material risk profile.

Co-op Insurance's financial objective in managing these risks is to generate a sufficient, stable and sustainable return on equity. Co-op Insurance aims to maintain a sufficient capital buffer in excess of minimum regulatory capital requirements to cover projected risks and maintain market confidence. The Board have defined detailed risk appetite measures and limits underpinning these objectives, which are measured, monitored and reported regularly to the ERC, BRC and Board.

Reputational risk

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

As part of the assessment and control of this risk, business performance and risk profile across all risk types are closely monitored and reviewed. Co-op Insurance proactively monitors and manages media, public and customer opinion and works closely with external rating agencies to ensure fair and balanced representation. This approach helps maintain member, customer and market confidence and the risk is regularly monitored and reported to the ERC, BRC and Board.

Throughout the year reputational risk remained stable, reflecting the stable environment and Co-op Group activity on Brand and membership. The increased adverse media coverage on the uncertainty regarding the sustainability of the Co-op Bank threatened to pose a risk to our reputation, during 2017. This risk decreased in the second half of the year following the announcement by the Group of sale of its final 1% holding and the increased confidence in the Bank's future. Despite these pressures on the brand, the business continued to demonstrate a strong market position with a number of positive media articles, a nomination as a finalist as General Insurer of the Year at the British Insurance Awards and winning both the Digital Marketing Campaign of the Year and Social Media Influence of the Year in the Insurance Marketing and PR Awards.

Conduct risk

Conduct risk is the risk that Co-op Insurance's processes, behaviours, offerings or interactions will result in unfair outcomes for customers. Accordingly, conduct risk may arise from any aspect of the way a business is conducted, the sole test being whether the outcome is an unfair one for customers. Conduct risk is a key area of focus across the financial services industry, with increasing scrutiny from the FCA.

Co-op Insurance's objective is to conduct business in a way that results in consistent fair outcomes for our customers through the operation of a robust conduct risk strategy and framework and the application of systems and controls in conjunction with on-going oversight and monitoring from risk functions. These established systems and controls are designed to detect, mitigate, remediate and prevent emerging conduct risk.

During 2017, Co-op Insurance strengthened its approach to vulnerable customers by implementing a framework and clear accountability, in order to ensure that vulnerability is recognised and recorded and that effective MI and oversight is in place. In 2017, this focus included the harmonisation of terms for long standing customers and price capping.

The Quality Assurance and Training & Competency Framework is embedded in operations to ensure that good customer outcomes are sustained.

Regulatory risk

Regulatory risk is the risk of regulatory sanctions, regulatory censure, material financial loss or loss to reputation Co-op Insurance may suffer as a result of its failure to comply with regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its activities. Co-op Insurance's objective is to be compliant with all relevant regulatory requirements and manage its regulatory risks so as to minimise the probability and potential impact of breaches and to remedy promptly and comprehensively the consequences of any that do occur.

The continued reliance on the legacy infrastructure has restricted the ability to respond precisely to some aspects of prescriptive regulation which have been mitigated by manual workarounds and open communication with customers. Where no further corrective action can be taken, a process of risk acceptance has been put in place.

In common with businesses across Europe, risks continue to be posed to Co-op Insurance by the additional legislation and emerging regulatory & legal interpretation in respect of the General Data Protection Regulations (GDPR). The Data Protection Act will be repealed and businesses are required to comply with the new rules from May 2018. A GDPR project is in place to ensure Co-op Insurance meets industry standards with suitable resourcing and external expertise where required.

2. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Insurance risk

Insurance risk comprises the risk of loss resulting from:

- Future claims events other than catastrophes (Premium Risk).
- Adverse change in the value of insurance liabilities (Reserve Risk).
- Natural or man-made catastrophe events (Catastrophe Risk).
- The assumptions underlying expenses are not borne out in practice (Expense Risk).

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

Key risks under Motor policies are bodily injury to third parties, accidental damage to property including policyholders', third parties' vehicles and theft of or from policyholders' vehicles. The most significant factors affecting the frequency and severity of motor claims are judicial, legislative and inflationary changes and the frequency and severity of large bodily injury claims. Periodic Payment Orders (PPOs) are being used to settle injury claims in the UK, with compensation being paid to claimants at regular intervals, rather than in a single lump sum award. This introduces further risk to the insurer as the term of the payments is dependent upon length of life expectancy and the payments increase with care worker future inflation. The reduction in the discount rate used to calculate these claims which was announced in February 2017 has increased the likely cost of cash settlement.

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

At the statement of financial position date there were no significant concentrations of insurance risk.

Insurance Risk - Objective and strategy

Co-op Insurance manages insurance risk in accordance with its overall aims to achieve acceptable profits and return on equity. This is achieved by:

- Ensuring that insurance risks are carefully selected in accordance with risk appetite, underwritten in accordance with underwriting strategy and priced to reflect the underlying risk;
- Minimising reserve risk volatility through proactive claims handling, the claims provisioning process and robust reserving and modelling approaches; and
- Mitigating risk through the use of appropriate reinsurance arrangements.

These are considered in turn below.

The objective of the underwriting strategy is to ensure that the underwritten risks are diversified in terms of type and amount of risk, industry/demographic profile and geography, and only those risks which conform with underwriting criteria are accepted. Exposure mix and the frequency and average costs of claims are monitored throughout the year and where significant deviations from expectation are identified remedial action is taken.

The overriding objective in claims handling is to ensure all claims are properly scrutinised and paid where they fall within the terms and conditions of the policy. The proper scrutiny of claims is facilitated by the use of various technical aids such as weather validation and fraud databases, and the use of claims specialists. The basis for assessing claims provisions is set out in note 22 (page 57).

The nature of insurance contracts is that the obligations of the insurer are uncertain as to the timing or quantum of liabilities arising from contracts. Co-op Insurance takes all reasonable steps to ensure that it has information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Co-op Insurance manages this risk through the Reserving Committee which supports the Chief Financial Officer (CFO) in their responsibility to formally review claims reserves on a quarterly basis.

Co-op Insurance uses reinsurance to manage insurance risk, and in particular to mitigate the cost of catastrophe events such as storms and floods and the cost of large claims arising within its motor account. The appropriate level of reinsurance is proposed by management and approved by the Board, using Co-op Insurance's Internal Model to inform decision making.

In 2017, Co-op Insurance had three main reinsurance programmes in place: catastrophe excess of loss cover, motor excess of loss cover and a quota share arrangement of both its Motor and Home business.

The quota share reinsurance arrangement commenced in 2017, in order to enhance the Standard Formula capital coverage by reducing exposure to both premium and catastrophe risk are reduced in respect of business that will earn in 2018 and reserve risk in respect of business earned in 2017

Insurance risk sensitivity analysis can be found in note 22 b iii on page 59.

2. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Market risk

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

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

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

Co-op Insurance writes contracts of insurance in the United Kingdom and insurance liabilities and borrowings are denominated in sterling. Funds are invested solely in assets denominated in sterling and consequently there is no direct exposure to currency risk.

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

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

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

Market Risk - Objective and strategy

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

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

Co-op Insurance manages credit-spread and default risks from corporate bonds through the limits for exposure to credit-ratings and individual counterparties. Other risk mitigation techniques employed to manage exposure to counterparty default include transacting only through a diversified range of authorised counterparties and ensuring that any cash deposits (in excess of counterparty limits) are collateralised on a daily basis. The Capital, Liquidity, Investment and Pension Committee (CLIP) support the Chief Financial Officer (CFO) in overseeing the monitoring and management of these risks and exposures against limits.

The investment mandate sets strategic asset allocation and limits of investments types and duration and is approved by the Board. This is determined through considering the risk/reward trade off and the impact upon capital adequacy and solvency of the overall business, which relies on outputs from Co-op Insurance's Internal Model. Throughout 2017 the mandate has maintained the very risk averse stance that was set in 2016.

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

Duration in years	**2017**	**2016**
Insurance liabilities	2.7	2.7
Financial assets	3.3	3.2

Comparative analysis has been re-presented to align with 2017 methodology

Index-linked investments and other specific debt securities are used to match periodic payment orders (PPOs) and provisions relating to exposure within the historic liability claims from the electric industry by amount and duration. In order to do this, an expert opinion on life expectancy is used along with an expectation of long term average earnings.

2. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Market Risk - Objective and strategy (continued)

Mean durations for these exposures are:

2017	Amount (£m)	Duration (Years)
Periodical payment orders (PPO)		
Insurance liabilities	23.4	17.7
Financial assets	44.1	15.9
Historic insurance industry liability claims		
Insurance liabilities	2.1	9.7
Financial assets	2.6	8.6

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

Market Risk - Sensitivity analysis

Based on the Internal Model, the most significant aspect of market risk to which Co-op Insurance is exposed is the effect of changes in credit-spreads on corporate bonds. The resulting movements in the market values of corporate bonds directly affect Co-op Insurance's solvency. As Co-op Insurance has adopted a policy of recognising most investment assets on an 'available for sale' basis, movements in market values of these assets are recognised in other comprehensive income and so have no impact on reported IFRS profits.

An increase of 100 basis points in credit-spreads would reduce the value of Co-op Insurance's assets at the end of the financial year by £22.2m (2016: £21.2m). This would reduce Co-op Insurance's solvency (on all bases) by £18.3m net of tax (2016: £17.5m), although it is likely that the overall net impact on solvency would be lower than this as the fall would be partially offset by a reduction in the value of liabilities arising from the use of the Volatility Adjustment (under Solvency II) to value claims provisions. The impact of a decrease of 100 basis points in credit-spreads would have similar but opposite effects. Comparative analysis has been restated to align with 2017 methodology

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. Co-op Insurance's objective is to minimise operational risk through the implementation of a robust control environment which minimises the potential for loss as a result of the failure of processes, people and technology or due to external events.

Co-op Insurance has defined the following sub-categories within operational risk, which represent the major areas of operational risk exposure. Each sub-category has its own policy, approved by the relevant RFO and is supported by underlying control standards:

- Financial Reporting Risk.
- Model Risk.
- Technology Risk (including Cyber Risk).
- Premises and Physical Security Risk.
- Third Party Supplier Risk.
- Change Risk.
- Product Governance Risk.
- Information Risk.
- Financial Crime Risk.
- People Risk.
- Legal Risk.
- Business Disruption Risk.
- Health & Safety Risk.

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

All amounts are stated in £m unless otherwise indicated

2. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Operational risk (continued)

Technology Risk: System Performance and System Uptime has stabilised during 2017, due to the work of the IT Remediation programme and improved effectiveness of IT controls around change. Our supplier management approach continues to mature completing the rollout of our third party supplier governance standard during 2018.

Information Risk: Several data deletion projects took place throughout the year, removing significant numbers of sensitive items of data. In addition, stricter controls in the operation of data were introduced. This reduced any impact of data loss to our business, from the IT infrastructure. Further data cleansing and improved data controls during 2018, is expected to further reduce this risk.

People Risk: As business transformation continues there are multiple dependencies on key individuals across the business, who are responsible for supporting transformation as well as managing business as usual activities. This risk is managed with detailed succession planning, retention strategy by individual and further investment in leadership capability in 2017.

Legal Risk: A dedicated General Insurance legal function was established in 2017 and permanent General Counsel appointed. The initial focus has been to transfer the legal service from the Co-op Group and addressing the termination of the transformation programme. The legal function is engaged with the business and will continue to embed legal risk framework during 2018.

Business Disruption Risk: The continued work on the IT remediation programme improved the Disaster Recovery (DR) capability for critical systems. DR for all key systems has been tested during 2017 and Q1 2018 and proved to be effective, following identified issues being rectified.

Co-op Insurance has a corporate insurance programme to transfer specific risks to insurers as part of its risk management approach which includes; property and business interruption, financial crime, employer's liability and Directors and officers. Co-op Insurance also renewed its Cyber Insurance (Forensic & Investigation costs, Business Interruption, Cyber Theft, Cyber Extortion, Telephone Hacking, PR expenses and Notification expenses).

Liquidity risk

Liquidity risk is the current and prospective risk to earnings or solvency arising from the Co-op Insurance's inability to meet its obligations when they come due without incurring unacceptable losses. Co-op Insurance's objective is to maintain at all times, liquid resources which are adequate to meet all policyholder and other funding obligations as they fall due primarily through the use of cash and highly liquid UK government and corporate bonds.

The Board's risk appetite is that liquid assets should be at least equal to 20% of the ultimate cost of a 1-in-100 year UK windstorm loss before reinsurance recoveries. The ultimate cost is calculated based upon the catastrophe component of Co-op Insurance's Internal Model.

The latest model assesses the ultimate cost of a 1-in-100 year UK windstorm loss as £113.8m (2016: £104.3m), giving a minimum requirement for £22.8m (2016: £20.9m) of liquid assets against actual liquid assets of £738.6m (2016: £773.1m). These values are gross of all reinsurance.

Liquid assets are considered to be:

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

The level of cash and other assets held are monitored regularly and managed through the Capital, Liquidity, Investment and Pension Committee, with oversight by the BRC and Board. This includes monthly reporting of liquid assets against risk appetite limits including forecasts for 2018.

All amounts are stated in £m unless otherwise indicated

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

Liquidity risk (continued)
The following table indicates the time profile of undiscounted cash flows arising from financial liabilities (based upon contractual maturity).

	Carrying value	Gross nominal out flow	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
As at 31 December 2017								
Insurance contract liabilities	**508.3**	**592.2**	**208.3**	**109.0**	**62.9**	**38.0**	**22.9**	**151.1**
Financial liabilities at amortised cost:								
Subordinated debt	**67.9**	**133.0**	**8.4**	**8.4**	**8.4**	**8.4**	**8.4**	**91.0**
Reinsurance liabilities	**3.8**	**3.8**	**3.8**	**-**	**-**	**-**	**-**	**-**
Insurance and other payables	**54.8**	**54.8**	**54.8**	**-**	**-**	**-**	**-**	**-**
Overdrafts	**5.9**	**5.9**	**5.9**	**-**	**-**	**-**	**-**	**-**
	640.7	**789.7**	**281.2**	**117.4**	**71.3**	**46.4**	**31.3**	**242.1**
Other liabilities	**5.6**							
Total recognised liabilities	**646.3**							

	Carrying value	Gross nominal out flow	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
As at 31 December 2016								
Insurance contract liabilities	488.1	562.1	197.3	101.8	58.4	37.2	23.4	144.0
Financial liabilities at amortised cost:								
Subordinated debt	67.7	141.4	8.4	8.4	8.4	8.4	8.4	99.4
Reinsurance liabilities	6.6	6.6	6.6	-	-	-	-	-
Insurance and other payables	73.1	73.1	73.1	-	-	-	-	-
Overdrafts	5.8	5.8	5.8	-	-	-	-	-
	641.3	789.0	291.2	110.2	66.8	45.6	31.8	243.4
Other liabilities	7.0							
Total recognised liabilities	648.3							

Comparative analysis has been re-presented to align with 2017 methodology

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

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

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

Co-op Insurance manages credit risks associated with cash and corporate bonds as part of market risk. See market risk section on page 38 to 39 for details.

Where reinsurance is used to manage insurance risk, there is a risk that the reinsurer fails to meet its obligations in the event of a claim. Co-op Insurance places limits over exposure to a single reinsurance counterparty, or counterparty group, based upon their credit-worthiness. These limits apply when reinsurance is initially placed, usually annually, and then regularly monitored by the Capital, Liquidity, Investment and Pension Committee. Where concern exists over the credit quality of a reinsurer, a review will be undertaken to determine the most appropriate management action.

The quota share reinsurance arrangement operates on a funds withheld basis, which means that only the reinsurer margin is transferred to the reinsurer.

All amounts are stated in £m unless otherwise indicated

2. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Credit risk (continued)

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

Co-op Insurance has a credit exposure of up to £60.0m (2016: £60.0m) with a trading counterparty that provides administrative services including the collection of premiums. Credit Insurance was purchased during 2017 to mitigate against this exposure to within risk appetite.

The table below provides an analysis at the statement of financial position date of the credit rating of those assets subject to credit risk. Co-op Insurance policy for making provisions for possible impairment is described within the accounting policy section on page 29. Credit ratings are determined by using the Markit iBoxx Rating methodology.

	AAA	**AA**	**A**	**BBB and below**	**Not rated**	**Total**
As at 31 December 2017						
Financial assets at fair value through income or expense:						
Cash deposits and loans and receivables with approved credit institutions	**-**	**-**	**197.2**	**-**	**-**	**197.2**
Available for sale assets:						
Listed debt (fixed rate)	**108.7**	**291.5**	**143.4**	**-**	**-**	**543.6**
Listed debt (variable rate)	**27.9**	**24.8**	**63.3**	**5.0**	**-**	**121.0**
Reinsurance assets	**-**	**29.8**	**25.6**	**-**	**3.1**	**58.5**
Insurance receivables and other assets	**1.8**	**2.5**	**3.5**	**-**	**163.4**	**171.2**
Cash and cash equivalents	**-**	**-**	**15.2**	**-**	**-**	**15.2**
	138.4	**348.6**	**448.2**	**5.0**	**166.5**	**1,106.7**
Salvage and subrogation						**33.3**
Assets not subject to credit risk						**40.8**
						1,180.8

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

The maximum exposure to credit risk, before making allowance for collateral held, is represented by the carrying value of each financial asset in the table. Collateral, in the form of gilts, of £147.8m (2016: £177.2m) is held against short term deposits which have been placed into a reverse repo transaction of £145.0m as at 31 December 2017 (2016: £175.0m). On 29 December 2017, an additional £2.7m was placed on deposit, this balance was 100% covered by collateral received in the form of gilts. These short term deposits sit with approved credit institutions within financial investments at fair value through income or expense on the statement of financial position.

All amounts are stated in £m unless otherwise indicated

2. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Eurozone risk

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

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

	Up to 1 year	1 to 5 years	Over 5 years	Total
As at 31 December 2017				
Finland	**-**	**6.4**	**-**	**6.4**
France	**-**	**5.0**	**-**	**5.0**
Germany	**-**	**31.5**	**5.3**	**36.8**
Netherlands	**18.1**	**7.4**	**-**	**25.5**
Norway	**-**	**11.5**	**-**	**11.5**
Sweden	**-**	**35.8**	**-**	**35.8**
Switzerland	**5.3**	**-**	**-**	**5.3**
	23.4	**97.6**	**5.3**	**126.3**

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

Pension risk

Pension risk is defined as the risk to Co-op Insurance capital and profitability from CFSMS's exposure to the Pace scheme, due to employees seconded from CFSMS to Co-op Insurance.

While Co-op Insurance is not a participating employer, it has an agreement to pay pension contributions relating to staff currently and previously employed by CFSMS, a wholly owned subsidiary of the Co-operative Group, who have been assigned to work for Co-op Insurance. This means that Co-op Insurance is exposed to pension risk through the Co-operative Group pension scheme (Pace), which is a defined benefit scheme. The Pace trustee, in consultation with the Group, is responsible for the risk management arrangements for Pace, agreeing suitable contribution rates, investment strategy and for taking professional advice as appropriate. The scheme is managed at the Co-operative Group level. Co-op Insurance contributed £1.9m in 2017 (2016: £1.9m) to satisfy its pension deficit funding plan.

The Co-operative Bank has been in active negotiations with the Co-operative Group regarding separation of pension obligations. During Q2, the Bank, Group and Trustees announced an intention to separate the Bank from Pace through sectionalisation and the impact of this on Co-op Insurance is expected to be minimal.

The Pace scheme is treated as a defined contribution scheme and Co-op Insurance is exposed to potential future increases in required contributions. The impact is assessed under Co-op Insurance's Risk Management Framework and Internal Model and capital requirements also allow for this. As the scheme is closed to future accruals the costs arise through deficit repair contributions, expenses and potential employer debt, under Section 75 of the Pensions Act. Co-op Insurance engages with the Group to actively manage the volatility in the pension funding position by continuous monitoring, adjustments to scheme contributions, engagement of external advisors and review of investment and pension strategies.

Co-op Insurance has received formal confirmation of the conclusion of the 2016 Pace valuation; the scheme was over 100% funded on a trustee technical provisions basis. As a result no further deficit contributions will be due in the foreseeable future.

In addition, Pace is aiming to become self-sufficient and to transfer liabilities to an insurance company subject to favourable pricing terms. Pace is expected to be able to rely on returns from its asset portfolio to reach the target before 2027 and current projections show that no further contributions will be needed to reach this target. Pace already runs very little investment risk and material volatility in the funding position is not anticipated.

2. Risk Management and Capital Management (continued)

i) Risk Management (continued)

Group risk

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

The programme to separate Co-op Insurance from Bank systems continued throughout the year. As various separation phases were concluded, the overall risk reduced. Projects are in place to complete the physical separation and address dis-synergies, subject to Co-operative Bank's own IT plans.

2. Risk Management and Capital Management (continued)

ii) Capital Management

Objectives when managing capital

Co-op Insurance's strategy in respect of capital management is to ensure that the following objectives are met:

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

Required capital

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

(a) Regulatory required capital

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

i) SCR: The SCR is a risk-responsive capital measure, calibrated to ensure that an insurer will be able to meet its obligations over the next 12 months with a probability of at least 99.5%. Co-op Insurance currently calculates its SCR using the Standard Formula (SF), adjusted to ensure that this appropriately reflects its risk profile. The Standard Formula is calibrated based on market wide data and not on a specific firm's data, so the PRA must approve the SF SCR as being appropriate for a particular firm.

Co-op Insurance also maintains an Internal Model to calculate economic capital requirements and an internal view of regulatory solvency and risk. It is maintained targeting the required standards to apply to the PRA for approval to use Co-op Insurance's Internal Model to calculate the SCR. Outputs from the internal Model and from the SF SCR calculation are used in areas of the wider business such as investment and reinsurance decisions, determining the risk in the business plans with regard to risk appetite and return on capital in pricing.

ii) MCR: The calculation of the MCR is prescribed under the Solvency II guidance and is set at a lower level than the SCR. Initially, the MCR is calculated by applying set factors to net technical provisions and the previous 12 months' net written premiums and is then subject to a cap of 45% and a floor of 25% of the SCR.

(b) Internal required capital

Co-op Insurance Board sets capital risk appetite, which defines how much additional capital ("SCR coverage") Co-op Insurance should hold over and above its most onerous regulatory capital requirement. The risk appetite at end-2017 is to aim to have at least 130% SCR coverage, and to target 140% SCR coverage. The risk appetite is reviewed periodically and was most recently approved in February 2018.

Co-op Insurance has maintained capital above all its regulatory requirements throughout 2017. Board risk appetite is for solvency coverage to be 130% or more over a forecast horizon of 24 months. This was the case throughout 2017. Co-op Insurance reviews solvency continuously through weekly, or when appropriate daily, monitoring. Monthly updates and quarterly reports are provided to the Capital, Liquidity, Investments and Pensions Committee and Board.

In the event that Co-op Insurance falls below its risk appetite, it would be possible to reduce capital requirements by executing actions that reduce risk, albeit often resulting in reduced returns. Management have identified potential actions which fall into three main categories:

- Actions to reduce insurance risk through the purchase of reinsurance.
- Actions to reduce other types of risk – for example, de-risking the investment portfolio.
- Actions to increase available capital – for example, through possible issuance of additional subordinated debt.

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

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

(c) Capital composition

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

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

2. Risk Management and Capital Management (continued)

ii) Capital Management (continued)

(c) Capital composition (continued)

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

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

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

Further information, including an explanation of the valuation of assets and liabilities on a Solvency II basis, is included in the Co-op Insurance Solvency & Financial Condition Report published annually.

All amounts are stated in £m unless otherwise indicated

3. Net earned premiums

	2017	2016
Gross premiums		
Gross written premiums	**496.1**	480.9
Change in unearned premium provision	**(6.3)**	(14.4)
Gross earned premiums	**489.8**	466.5
Outward reinsurance premiums		
Premiums ceded	**(158.5)**	(27.2)
Change in unearned premium provision	**-**	(0.3)
Premiums ceded to reinsurers	**(158.5)**	(27.5)
Net earned premiums	**331.3**	439.0

See note 10 for explanation of the quota share impact to net earned premium.

4. Fee and commission income

	2017	2016
Fee income	**15.0**	11.1
Reinsurance commission earned	**43.4**	0.5
Other commission	**1.3**	1.4
	59.7	13.0

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

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

See note 10 for explanation of the quota share impact to reinsurance commission earned.

5. Investment income

	2017	2016
Interest and similar income from assets held at fair value through income or expense:		
Deposits with credit institutions	**0.4**	0.7
	0.4	0.7
Interest income (calculated using Effective Interest Rate) from available for sale assets:		
Listed debt securities	**12.2**	12.3
	12.6	13.0

6. Gains less losses arising from financial instruments

	2017	2016
Net gains arising on financial assets:		
Available for sale listed debt securities	**2.8**	1.4
	2.8	1.4

All amounts are stated in £m unless otherwise indicated

7. Net policyholder claims and benefits paid

	2017	2016
Gross claims paid		
Current year claims	**186.9**	164.6
Prior year claims	**184.0**	182.9
Gross claims paid	**370.9**	347.5
Less salvage and subrogation		
Current year claims	**(21.9)**	(13.2)
Prior year claims	**(17.1)**	(13.3)
Salvage and subrogation received	**(39.0)**	(26.5)
Claims paid	**331.9**	321.0
Less amounts receivable from reinsurers		
Current year claims	**(47.7)**	(2.3)
Prior year claims	**(4.4)**	(6.4)
Amounts receivable from reinsurers	**(52.1)**	(8.7)
Net policyholder claims and benefits paid	**279.8**	312.3

8. Fees and commission expenses

	2017	2016
Commission paid	**26.7**	28.0
Change in deferred commission	**(0.1)**	(0.9)
	26.6	27.1

9. Operating expenses

	2017	2016
Other acquisition expenses	**38.3**	35.9
Administration expenses	**94.6**	98.3
Costs in respect of business transformation	**23.0**	28.8
Operating Expenses	**155.9**	163.0

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

Included within the administration expenses is £5.8m (2016: £5.5m) paid by Co-op Insurance in respect of regular pension contributions, which includes £1.9m (2016: £1.9m) in respect of the Pace pension deficit funding. The details of the Pace scheme are included in the financial statements of the Co-operative Group and in note 2 on page 43.

The Trustee formally reviews the pension funding position every three years and, where there is a deficit, agrees a funding recovery plan with the Group. Group determines the proportion of the deficit recovery contributions required by each participating employer. It currently does this using an approximate estimate of each employer's share of the Pace Scheme liabilities.

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

9. Operating expenses (continued)

	2017 £'000	2016 £'000
Audit of these financial statements	**235.0**	379.0
Amounts receivable by Co-op Insurance's auditor and its associates in respect of:		
Audit-related assurance services	**22.0**	22.0
Other assurance services	**71.0**	192.0
	328.0	593.0

2017 other assurance services relate to assurance provided on Co-op Insurance's Solvency II reporting. Audit-related assurance services are the half year review of interim financial information for consolidation into the Interim Report for the Co-operative Group.

10. Segments analysis

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

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

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

Business segments

Co-op Insurance comprises the following segments:

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

All amounts are stated in £m unless otherwise indicated

10. Segments analysis (continued)

Segmented income statement for the year ended 31 December 2017

	Motor	Home	Other	Quota Share	Total
Net earned premiums	361.1	111.9	0.2	(141.9)	331.3
Net claims incurred	(275.7)	(51.3)	(3.8)	94.6	(236.2)
Net fee and commission (expenses)/income	(3.4)	(9.1)	2.1	43.4	33.0
Operating expenses	(88.6)	(42.3)	(1.0)	-	(131.9)
Underwriting result	**(6.6)**	**9.1**	**(2.5)**	**(3.9)**	**(3.8)**
Net investment return	14.6	(0.1)	(0.1)	-	14.4
Other expenses	(7.3)	(1.1)	(0.1)	-	(8.5)
Segmented operating (loss)/profit	**0.7**	**8.0**	**(2.7)**	**(3.9)**	**2.1**
Costs in respect of business transformation					(23.0)
Loss before tax					**(20.9)**
In force policy count (Individual policies held)	**775,065**	**580,072**	**-**	**-**	**1,355,137**
Gross written premiums	378.4	117.6	0.1	-	496.1
Claims ratio	76.4%	45.9%			71.3%
Commission and expense ratio	25.5%	46.0%			29.9%
Combined operating ratio	101.8%	91.8%			101.2%
Current year:					
Underwriting result	(18.8)	11.4	1.0		(6.4)
Combined operating ratio	105.2%	89.8%			101.3%

Segmented income statement for the year ended 31 December 2016

	Motor	Home	Other	Total
Net earned premiums	322.0	116.8	0.2	439.0
Net claims incurred	(258.8)	(44.3)	9.2	(293.9)
Net fee and commission (expenses)/income	(8.1)	(8.2)	2.2	(14.1)
Operating expenses	(91.0)	(41.2)	(0.9)	(133.1)
Underwriting result	(35.9)	23.1	10.7	(2.1)
Net investment return	11.0	1.8	0.5	13.3
Other expenses	(7.0)	(1.2)	(0.4)	(8.6)
Segmented operating (loss)/profit	(31.9)	23.7	10.8	2.6
Costs in respect of business transformation				(28.8)
Loss before tax				(26.2)
In force policy count (Individual policies held)	836,939	578,837	-	1,415,776
Gross written premiums	360.3	120.0	0.6	480.9
Claims ratio	80.4%	37.9%		66.9%
Commission and expense ratio	30.8%	42.3%		33.5%
Combined operating ratio	111.2%	80.2%		100.4%
Current Year				
Underwriting result	(67.9)	18.4	1.7	(47.8)
Combined operating ratio	121.1%	84.3%		108.0%

All amounts are stated in £m unless otherwise indicated

10. Segments analysis (continued)

Reconciliation of segmental income to statutory income statement

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

	2017	2016
Commission expenses		
Net fee and commission expense from segmented income statement	**33.0**	(14.1)
Reclassified Fee and commission income per income statement	**(59.6)**	(13.0)
Fee and commission expenses within income statement	**(26.6)**	(27.1)
Segmental income statement operating expenses		
Total operating expenses from segmented income statement	**(131.9)**	(133.1)
Reclassification of investment expenses	**(1.0)**	(1.1)
Other acquisition and administration expenses within income statement	**(132.9)**	(134.2)
Investment return		
Net investment return from segmented income statement	**14.4**	13.3
Reclassification of investment expenses to operating expenses	**1.0**	1.1
Analysed as below in the income statement	**15.4**	14.4
Investment income within income statement	**12.6**	13.0
Gains less losses arising from financial instruments per income statement	**2.8**	1.4
Income Statement	**15.4**	14.4
Other expenses for segmented income statement is made up of:		
Costs in respect of business transformation	**(23.0)**	(28.8)
Finance costs	**(8.6)**	(8.6)
	(31.6)	(37.4)

All amounts are stated in £m unless otherwise indicated

11. Income tax

	2017	2016
Current tax		
UK tax credit for the current year	**3.1**	4.1
UK tax adjustments in respect of prior years	**0.1**	(0.1)
Adjustment to amount owed to Bank plc re historic Group Relief	**0.1**	0.2
Total current tax credit	**3.3**	4.2
Deferred tax		
Origination and reversal of temporary differences	**0.8**	0.9
Effect of tax rate change	**-**	0.3
Adjustments in respect of prior years	**(0.1)**	0.1
Total deferred tax credit	**0.7**	1.3
Total tax credit/(charge) recognised in the income statement	**4.0**	5.5

Reconciliation of effective tax rate

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

	2017	2016
Loss before taxation	**(20.9)**	(26.2)
Tax calculated at domestic corporation tax rate of 19.25% (2016: 20%)	**4.0**	5.2
Effect of:		
Expenses not deductible for tax (including significant items)	**(0.1)**	(0.1)
Adjustment to amount owed to Bank plc re historic Group Relief	**0.1**	0.2
Revision of deferred tax to 17.53% (2016: 17.58%)	**-**	0.3
Change in tax rate	**-**	(0.1)
Income tax credit/(charge)	**4.0**	5.5

All amounts are stated in £m unless otherwise indicated

12. Property, plant and equipment

	Fixtures & Fittings	**Assets in course of construction**	**Total**
2017			
Cost			
At the beginning of the financial year	**0.9**	**0.1**	**1.0**
At the end of the financial year	**0.9**	**0.1**	**1.0**
Depreciation			
At the beginning of the financial year	**0.2**	**-**	**0.2**
Depreciation charge for the financial year	**0.1**	**-**	**0.1**
At the end of the financial year	**0.3**	**-**	**0.3**
Carrying amount			
At the end of the financial year	**0.6**	**0.1**	**0.7**
At the beginning of the financial year	**0.7**	**0.1**	**0.8**

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

All amounts are stated in £m unless otherwise indicated

13. Intangible assets

2017	Computer Software	Assets in course of construction	Total
Cost			
At the beginning of the financial year	**0.1**	**1.6**	**1.7**
At the end of the financial year	**0.1**	**1.6**	**1.7**
Amortisation			
At the beginning of the financial year	**0.1**	**-**	**0.1**
At the end of the financial year	**0.1**	**-**	**0.1**
Carrying amount			
At the end of the financial year	**-**	**1.6**	**1.6**
At the beginning of the financial year	**-**	**1.6**	**1.6**

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

14. Deferred acquisition costs

	2017	2016
At the beginning of the financial year	**30.7**	28.1
Deferred acquisition costs	**60.7**	63.3
Amortisation	**(61.4)**	(60.7)
At the end of the financial year	**30.0**	30.7

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

All amounts are stated in £m unless otherwise indicated

15. Financial investments at fair value through income or expense

	2017	2016
Cash deposits with credit institutions	**49.5**	25.0
Loans and receivables from credit institutions	**147.7**	200.9
	197.2	225.9

All amounts in the current and prior year are expected to be recovered within one year. Within the above are secured deposits of £147.7m (2016: £200.9m). Collateral of £147.8m, in the form of gilts is held against these deposits. Please see the credit risk note on pages 41 to 42 for further details.

This category comprises short term fixed rate deposits which are designated as fair value through income and expense upon initial recognition. Comparatives have been re-presented to more accurately describe the nature of the assets.

16. Available for sale assets

	2017	2016
Listed debt securities - fixed rate	**543.6**	562.0
Listed debt securities - floating rate	**121.0**	125.7
	664.6	687.7

At 31 December 2017, debt securities of £453.6m (2016: £534.7m) are expected to be recovered more than 12 months after the reporting date.

17. Insurance receivables and other assets

	2017	2016
Receivables arising from insurance:		
Arising from insurance operations	**158.5**	149.0
Salvage and subrogation recoveries	**33.3**	23.3
Reinsurance ceded	**0.2**	0.4
Other receivables:		
Accrued interest	**9.4**	9.0
Amounts receivable from Group companies	**-**	0.1
Prepayments	**1.7**	1.2
Other receivables	**1.4**	0.7
	204.5	183.7

The receivables arising from insurance operations have increased from £149.0m to £158.5m. A significant proportion of this relates to a commercial agreement with Co-op Insurance's main intermediary. This permits premiums received and receivable from customers to be receipted on a monthly basis over 12 months. Management continue to monitor the outstanding balance and currently accept the resulting credit risk.

Receivables arising from insurance operations are stated net of an impairment provision of £0.5m (2016: £0.5m). The provision is calculated based on an assessment of insurance receivables for objective evidence that an impairment loss has been incurred. Any adjustment to the level of the provision is recorded within the income statement as an adjustment to written premium.

Insurance receivables and other assets include amounts totalling £30.4m (2016: £24.6m) which are due and overdue; amounts due and overdue but not impaired are £29.9m (2016: £24.1m), being the due and overdue amount net of the impairment provision detailed above. Amounts due and overdue are age analysed as follows:

	2017	2016
Amounts due and overdue:		
Less than 3 months	**30.0**	24.3
3 to 6 months	**0.2**	0.3
More than 6 months	**0.2**	-

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

All amounts are stated in £m unless otherwise indicated

18. Cash and cash equivalents

	2017	2016
Cash and cash equivalents	**15.2**	-
Overdrafts	**(5.9)**	(5.8)
Net cash and cash equivalents	**9.3**	(5.8)

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

19. Share capital

	2017	2016
Authorised		
	268.0	268.0
Issued and fully paid		
268,000,000 ordinary shares of £1 each	**268.0**	268.0

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

20. Retained earnings and other reserves

	2017	2016
Retained earnings		
At the beginning of the financial year	**(29.5)**	(8.8)
Loss for the financial year	**(16.9)**	(20.7)
At the end of the financial year	**(46.4)**	(29.5)

	2017	2016
Other reserves		
Available for Sale	**14.2**	19.0
Capital Reserves	**57.1**	57.1
	71.3	76.1

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

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

21. Borrowed funds

	2017	2016
Callable dated deferrable tier two notes	**67.9**	67.7
	67.9	67.7

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

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

Finance costs incurred during the financial period include £8.6m (2016: £8.6m) in relation to interest on the subordinated debt.

Borrowings arising from financing activities include the subordinated note. The increase of £0.2m during 2017 consists of the net of non-cash increase due to amortisation using the effective interest rate and the payment of interest by cash.

All amounts are stated in £m unless otherwise indicated

22. Insurance contract liabilities and reinsurance assets

(a) Analysis of insurance contract liabilities

	2017	2016
Gross		
Claims reported	**412.5**	348.9
Claims incurred but not reported	**84.2**	127.9
Claims settlement expenses	**11.6**	11.3
Unearned premiums	**241.6**	235.3
Unexpired risk provision	**-**	-
Total gross insurance liabilities	**749.9**	723.4
Recoverable from reinsurers		
Claims reported	**(87.3)**	(28.7)
Claims incurred but not reported	**(20.1)**	(24.8)
Unearned premiums	**-**	-
Quota Share*	**48.9**	-
Total reinsurers' share of insurance liabilities	**(58.5)**	(53.5)
Net		
Claims reported	**325.2**	320.2
Claims incurred but not reported	**64.1**	103.1
Claims settlement expenses	**11.6**	11.3
Unearned premiums	**241.6**	235.3
Unexpired risk provision	**-**	-
Quota Share*	**48.9**	-
Total net insurance liabilities	**691.4**	669.9

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

* Amounts recoverable from reinsurers in relation to the Quota Share agreement are not recorded as gross reinsurance assets in the statement of financial position. This is because they are offset against amounts payable under the Quota Share agreement. See accounting policies note 6 on page 30.

The quota share contractual liability to reinsurers is £53.0m (2016: nil).

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

i) Basis of assessing liabilities

Co-op Insurance uses a combination of recognised actuarial and statistical techniques to assess the ultimate cost of claims. These include:

- Projecting historic claims payment and recoveries data.
- Projecting numbers of claims.
- Deriving average costs per claim to apply to claim numbers.
- Projecting historic claims paid and incurred data (payment plus estimates) – statistical actuarial techniques including chain ladder, Bornhuetter-Ferguson and Cape Cod.

22. Insurance contract liabilities and reinsurance assets (continued)

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

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

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

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

Discounted reserves in respect of periodic payment settlements are £24.1m (2016: £22.3m) and historic liability claims from the electric industry discounted reserve amounts to £2.7m (2016: £3.0m). Further details around expected settlement patterns for claims arising on these reserves are disclosed within the market risk section on pages 38 to 39.

The historic liability claims from the electric industry reserve was based on a report produced for the industry at the end of 2015 by Towers Watson, an actuarial consultancy. This gave Towers Watson's estimate of both the undiscounted and discounted incurred but not reported (IBNR) reserves as at the end of June 2015. This was the most recent report available when Co-op Insurance calculated its year end 2017 reserves.

In respect of business yet to be earned, the adequacy of the premium to cover future claims costs and expenses was assessed to determine the requirement for an Unexpired Risk Provision (URP) by comparing the discounted premium and outgoings. As at the end of 2017 Co-op Insurance held an URP of Nil (2016: nil).

As outlined within the risk management section, there is significant uncertainty in the assessment of liabilities, and provisions are set to be adequate to cover the anticipated eventual cost, a management margin is added to the ‘actuarial best estimate’ so that no adverse run-off deviations are envisaged. Sensitivity analysis is performed to assist the selection of key parameters and, hence, the provisions adopted. Provisions are subject to detailed review regarding the appropriateness of key assumptions and the quantum of the provisions established.

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

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

ii) Key assumptions

Principal assumptions underlying the claims provisions include:

- Allowance for future inflation rates being different to those implied in the claims data.
- For bodily injury claims allowance has been made for:
  - Use of the appropriate Ogden Tables.
  - Awards for general damages in accordance with the 14th edition of the Judicial College Guidelines.
  - A proportion of large claims being settled by periodic payments.
  - improvements in the case estimation techniques resulting in earlier recognition of the size of claims.

All amounts are stated in £m unless otherwise indicated

22. Insurance contract liabilities and reinsurance assets (continued)

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

The gross insurance provision for claims and loss adjustment expenses arising in respect of prior years of £309.5m (2016: £282.1m) includes an increase in reserves of £5.5m (2016: release of £59.3m). This movement is as a result of the unfavourable development in Motor large bodily injury claims and legacy employers' liability releases, reported as Fire and Accident in the table below:

	Gross 2017	**Net 2017**	Gross 2016	Net 2016
Fire and Accident decrease/(increase) of reserves	**(5.4)**	**(5.1)**	18.6	12.6
Motor release of reserves	**3.8**	**10.0**	43.8	38.1
(Increase) in claims handling reserves	**(3.9)**	**(3.9)**	(3.1)	(3.1)
Movement in insurance liabilities	**(5.5)**	**1.0**	**59.3**	47.6

iii) Sensitivity analysis

There is greater uncertainty over motor claims provisions than other provisions as they often involve claims for bodily injury and associated legal costs which typically have a longer period to settlement. Motor provisions represent the most significant proportion of the total general insurance outstanding claims liabilities (gross of salvage and subrogation). Sensitivity information is given for motor claims provisions together with limited information for all other classes. The following table indicates the effect on gross claims provisions (gross of reinsurance and salvage and subrogation) of changes in key assumptions. The impact of the increased uncertainty on the income statement risk is mitigated through holding management margin on the best estimate reserves that is proportional to the level of uncertainty.

2017	**Change in parameter parameter**	**Effect on gross provision**	**% Effect**
Assumption			
Motor			
Average cost of claims for last three years - bodily injury and legal	**+10%**	**34.9**	**9.0%**
Mean term to settlement - bodily injury and legal	**+½ year**	**8.4**	**2.2%**
Rate of future inflation - bodily injury and legal	**+1%**	**11.4**	**2.9%**
Ogden discount rate - bodily injury	**-¾%**	**12.7**	**3.3%**
Other classes			
Mean term to settlement (liability)	**+½ year**	**0.3**	**1.9%**
Mean term to settlement (non-liability)	**+½ year**	**0.6**	**1.6%**
Rate of future inflation (liability)	**+1%**	**0.7**	**4.6%**
Rate of future inflation (non-liability)	**+1%**	**0.5**	**1.4%**

2016	Change in parameter parameter	Effect on gross provision	% Effect
Assumption			
Motor			
Average cost of claims for last three years - bodily injury and legal	+10%	30.9	8.4%
Mean term to settlement - bodily injury and legal	+½ year	7.8	2.1%
Rate of future inflation - bodily injury and legal	+1%	10.7	2.9%
Ogden discount rate - bodily injury	+¼%	-2.1	-0.6%
Other classes			
Mean term to settlement (liability)	+½ year	0.3	1.9%
Mean term to settlement (non-liability)	+½ year	0.6	1.6%
Rate of future inflation (liability)	+1%	0.6	4.2%
Rate of future inflation (non-liability)	+1%	0.5	1.4%

Comparative analysis has been restated to align with 2017 methodology

All amounts are stated in £m unless otherwise indicated

22. Insurance contract liabilities and reinsurance assets (continued)

(c) Change in general insurance liabilities and reinsurance assets

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

	Gross	Unexpired risk provision	Salvage & subrogation	Net
2017				
At the beginning of the financial year	**488.1**	**-**	**(23.3)**	**464.8**
Movement in the financial year	**20.2**	**-**	**(10.0)**	**10.2**
At the end of the financial year	**508.3**	**-**	**(33.3)**	**475.0**

	Gross	Unexpired risk provision	Salvage & subrogation	Net
2016				
At the beginning of the financial year	524.6	0.8	(27.5)	497.9
Movement in the financial year	(36.5)	(0.8)	4.2	(33.1)
At the end of the financial year	488.1	-	(23.3)	464.8

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

ii) Claims and loss adjustment expenses

	Gross 2017	Reinsurance 2017	Net 2017	Gross 2016	Reinsurance 2016	Net 2016
Claims reported	**348.9**	**(28.7)**	**320.2**	358.3	(30.8)	327.5
Claims incurred but not reported	**127.9**	**(24.8)**	**103.1**	153.3	(37.4)	115.9
Claims settlement expenses	**11.3**	**-**	**11.3**	13.0	**-**	13.0
At the beginning of the financial year	**488.1**	**(53.5)**	**434.6**	524.6	(68.2)	456.4
Claims paid during the year	**(370.9)**	**52.1**	**(318.8)**	(347.5)	8.7	(338.8)
Increase/(decrease) in liabilities:						
Arising from current year claims	**385.6**	**(99.5)**	**286.1**	370.3	(5.7)	364.6
Arising from prior year claims	**5.5**	**(6.5)**	**(1.0)**	(59.3)	11.7	(47.6)
Quota Share	**-**	**48.9**	**48.9**	-	**-**	-
Total movement	**20.2**	**(5.0)**	**15.2**	(36.5)	14.7	(21.8)
Claims reported	**412.5**	**(87.3)**	**325.2**	348.9	(28.7)	320.2
Claims incurred but not reported	**84.2**	**(20.1)**	**64.1**	127.9	(24.8)	103.1
Claims settlement expenses	**11.6**	**-**	**11.6**	11.3	-	11.3
Quota Share	**-**	**48.9**	**48.9**	-	**-**	-
At the end of the financial year	**508.3**	**(58.5)**	**449.8**	**488.1**	**(53.5)**	434.6

All amounts are stated in £m unless otherwise indicated

22. Insurance contract liabilities and reinsurance assets (continued)

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

iii) Provisions for unearned premiums

	Gross 2017	**Reinsurance 2017**	**Net 2017**	Gross 2016	Reinsurance 2016	Net 2016
At the beginning of the financial year	**235.3**	**-**	**235.3**	220.9	(0.3)	220.6
Increase in the financial year	**496.1**	**(158.5)**	**337.6**	480.9	(27.2)	453.7
Release in the financial year	**(489.8)**	**158.5**	**(331.3)**	(466.5)	27.5	(439.0)
Movement in the financial year	**6.3**	**-**	**6.3**	14.4	0.3	14.7
At the end of the financial year	**241.6**	**-**	**241.6**	235.3	-	235.3

iv) Unexpired risk provision

	Gross 2017	**Reinsurance 2017**	**Net 2017**	Gross 2016	Reinsurance 2016	Net 2016
At the beginning of the financial year	**-**	**-**	**-**	0.8	-	0.8
Premiums written	**-**	**-**	**-**	-	-	-
Premiums earned	**-**	**-**	**-**	(0.8)	-	(0.8)
Movement in the financial year	**-**	**-**	**-**	(0.8)	-	(0.8)
At the end of the financial year	**-**	**-**	**-**	-	-	-

All amounts are stated in £m unless otherwise indicated

22. Insurance contract liabilities and reinsurance assets (continued)

(v) Analysis of claims development

	Accident year										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	**2017**	**Total**
Gross of reinsurance											
At end of the accident year:	347.3	325.9	411.3	497.0	502.1	368.1	284.7	285.5	353.5	**367.8**	**3,743.2**
One year later	319.7	333.1	455.4	530.2	473.3	346.9	269.0	268.1	371.6		**3,367.3**
Two years later	310.2	340.5	480.1	527.4	473.0	343.1	263.9	259.9			**2,998.1**
Three years later	300.3	328.7	465.5	518.0	467.9	335.4	260.7				**2,676.5**
Four years later	296.7	320.0	456.3	515.1	458.2	340.6					**2,386.9**
Five years later	293.6	320.4	464.3	508.1	452.2						**2,038.6**
Six years later	294.1	319.7	459.4	509.4							**1,582.6**
Seven years later	294.7	318.8	459.4								**1,072.9**
Eight years later	294.3	317.6									**611.9**
Nine years later	293.4										**293.4**
Estimate for cumulative claims	293.4	317.6	459.4	509.4	452.2	340.6	260.7	259.9	371.6	**367.8**	**3,632.6**
Cumulative payments to date	(293.0)	(312.6)	(449.1)	(504.7)	(444.3)	(313.0)	(235.8)	(228.1)	(254.8)	**(176.0)**	**(3,211.4)**
Gross outstanding claims liabilities before discounting	0.4	5.0	10.3	4.7	7.9	27.6	24.9	31.8	116.8	**191.8**	**421.2**
Provision for prior years before discounting											**76.0**
Discounting											**(0.5)**
Gross outstanding claims liabilities											**496.7**
Gross claims reported											**412.5**
Gross claims incurred but not reported											**84.2**
Gross outstanding claims liabilities											**496.7**

Included in the analysis above is £47.9m (2016: £44.6m) of discounted reserves relating to PPOs. The analysis of claims development for PPOs is to enable a more appropriate comparison between accident years and also ensures the development shown during the year is more reflective of the overall impact to the Income Statement. Undiscounted reserves relating to PPOs are £128.3m (2016: £115.2m) on a total basis.

All amounts are stated in £m unless otherwise indicated

22. Insurance contract liabilities and reinsurance assets (continued)

(v) Analysis of claims development (continued)

	Accident year										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	**2017**	**Total**
Net of reinsurance											
At end of the accident year:	334.6	313.1	398.4	481.2	489.8	350.9	275.9	267.9	347.7	**268.3**	**3,527.8**
One year later	305.5	320.7	434.3	514.8	456.3	330.4	260.6	256.8	357.8		**3,237.2**
Two years later	296.3	325.4	458.6	516.5	458.7	329.7	255.0	247.7			**2,887.9**
Three years later	291.8	317.6	445.2	509.4	456.3	322.0	251.3				**2,593.6**
Four years later	289.6	310.0	439.4	506.9	448.1	325.8					**2,319.8**
Five years later	287.2	307.3	447.9	502.3	445.4						**1,990.1**
Six years later	287.8	310.2	447.2	503.3							**1,548.5**
Seven years later	288.3	310.3	447.5								**1,046.1**
Eight years later	288.0	309.0									**597.0**
Nine years later	287.1										**287.1**
Estimate for cumulative claims	287.1	309.0	447.5	503.3	445.4	325.8	251.3	247.7	357.8	**268.3**	**3,443.2**
Cumulative payments to date	(286.7)	(305.9)	(440.6)	(498.9)	(438.1)	(306.7)	(230.4)	(218.4)	(252.3)	**(128.4)**	**(3,106.4)**
Net outstanding claims liabilities before discounting	0.4	3.1	6.9	4.4	7.3	19.1	20.9	29.3	105.5	**139.9**	**336.8**
Provision for prior years before discounting											**53.1**
Discounting											**(0.5)**
Net outstanding claims liabilities											**389.4**
Net claims reported											**325.2**
Net claims incurred but not reported											**64.2**
Net outstanding claims liabilities											389.4

It is to be expected that releases will normally be made to prior years claims as current reserves are set such that no adverse deterioration is expected. However, from time to time the random occurrence of significant large individual claims or events being worse than expected can give rise to a required strengthening, in addition to normal claims development being adverse. The 2017 result includes movement on prior year reserves of £(0.9)m (2016: £(47.6)m). This includes claims handling reserve movement, but excludes salvage and subrogation and inwards reinsurance movements.

All amounts are stated in £m unless otherwise indicated

23. Taxation

	2017	2016
Current tax		
Asset/(liability) at the beginning of the financial year	**14.3**	9.6
Tax credited to the income statement	**3.2**	4.0
Tax credited directly to other comprehensive income:		
Changes in fair value on available for sale assets recognised through other comprehensive income*	**0.4**	0.7
Tax received during the financial year	**(9.4)**	-
Group relief received from the Co-operative Bank	**-**	-
Asset at the end of the financial year	**8.5**	14.3

	2017	2016
Deferred tax liability		
Liability at the beginning of the financial year	**(7.0)**	(5.0)
Tax credited to the income statement	**0.7**	1.3
Tax (charged) to statement of comprehensive income*	**0.7**	(3.3)
Liability at the end of the financial year	**(5.6)**	(7.0)
Analysis of deferred tax liability		
Claims equalisation reserve	**(3.4)**	(4.3)
Capital allowances on fixed assets	**0.3**	0.3
Available for sale assets	**(2.5)**	(3.1)
Other temporary differences	**-**	0.1
Liability at the end of the financial year	**(5.6)**	(7.0)

*Statement of comprehensive income on page 22

The Finance Act 2012 abolished the tax relief for the equalisation reserves of general insurers with effect from 1 January 2016. However the Act allows for the release of the reserve equally over a period of six years for tax purposes, with £4.8m being released in 2017. The balance as at 31 December 2017 was £19.0m which had previously been treated as tax deductible, however for accounts purposes the corresponding value is nil. The difference has been recognised as part of the Deferred Tax liability at 17.53%.

The Finance Act 2013 reduced the main rate of corporation tax from 21% to 20% from 1 April 2015, and the Finance Act 2015 subsequently further reduced the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020. This will reduce the society's future current tax charge accordingly. The deferred tax liability at 31 December 2017 has been calculated based on an estimate of the rate at which the asset will reverse, using the tax rates substantively enacted at the statement of financial position date, to arrive at a blended rate of 17.53%.

24. Reinsurance liabilities

	2017	2016
Arising from reinsurance operations	**3.8**	6.6
	3.8	6.6

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

All amounts are stated in £m unless otherwise indicated

25. Insurance and other payables

	2017	Re-presented 2016
Arising out of direct insurance operations	**0.9**	0.9
Accruals and deferred income	**28.4**	38.9
Amounts payable to Group companies	**2.1**	5.0
Insurance premium taxation payable	**15.7**	13.2
Provisions	**1.7**	3.8
Other payables	**6.0**	11.3
	54.8	73.1

All amounts are due within one year.

Reconciliation of movement of provisions

	Marketing Campaigns	**Software Licence**	**Property**	**Regulatory Levies**	**Other**	**Total**
At 1 January 2017	**2.7**	**0.3**	**-**	**0.7**	**0.1**	**3.8**
Additional Provision	**2.6**	**-**	**-**	**10.4**	**0.6**	**13.6**
Utilisation of provision	**(3.9)**	**-**	**-**	**(11.1)**	**-**	**(15.0)**
Released to Income Statement	**(0.6)**	**-**	**-**	**-**	**(0.1)**	**(0.7)**
At 31 December 2017	**0.8**	**0.3**	**-**	**-**	**0.6**	**1.7**

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

Marketing campaigns are food and electrical voucher promotions (Extra Ingredients, Bags More and E-Stores Campaign).

Software license provision relates to license asset management.
Regulatory levies provision relates to the FSCS levy.

26. Contingent assets and liabilities

Co-op Insurance is party to a Deed of Guarantee with the Trustee for the benefit of the Co-operative Group Pension Scheme (Pace) that, if CFSMS does not pay any amount due in respect of its funding obligations to Pace, Co-op Insurance will pay to Pace its share of the amount due as if it were the principal obligor for such share (for further details see group risk on page 44 and pension risk on page 43). As explained in note 9, Co-op Insurance is currently recharged by CFSMS for its share of the pension contributions, including an element of the Pace deficit funding. The directors have no reason to believe that CFSMS will not be able to continue making payments to Pace when due and therefore, at the current time, do not expect any payments to be required under the guarantee.

All amounts are stated in £m unless otherwise indicated

27. Commitments

Co-op Insurance entered into a long term "software as a service" contractual agreement. This contract has now been terminated. The estimated value of the remaining commitment is £nil (2016: £148m), these amounts have not been provided for in the financial statements.

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

	2017	2016
Facilities associated with operating lease commitments		
Within one year	**1.7**	1.9
In the second to fifth years inclusive	**7.1**	9.0

Comparative analysis has been re-presented to align with 2017 methodology

28. Parent company

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

The Co-operative Group Limited is the parent and is incorporated as an Registered society under the Co-operative and Community Benefit Societies Act 2014 and is registered in England and Wales. The results of CIS General Insurance Limited are consolidated in the group headed by the Co-operative Group Limited. The financial statements of the parent organisation are available from 1 Angel Square, Manchester, M60 0AG.

29. Related party transactions

A number of transactions have been entered into during the course of the year with related parties. These have been conducted in the normal course of business and at arm's length. These include the provision of insurance products to members of the wider Co-op Group and key management personnel.

Balances at the end of the year

	Balances with parent undertaking 2017	**Balances with other related parties 2017**	Balances with parent undertaking 2016	Co-operative Bank 2016	Balances with other related parties 2016
Balances with related parties					
At the beginning of the financial year	**-**	**(5.0)**	-	(0.1)	(2.4)
Movement in capital value	**-**	**2.9**	-	(1.6)	(2.6)
At the end of the financial year	**-**	**(2.1)**	**-**	(1.7)	(5.0)

Transactions in the year

The Co-operative Group Limited, provides administration for several of its subsidiaries. Co-op Insurance has paid £27.7m (2016: £19.1m) to the Co-operative Group Limited in relation to various services within a Master Services Agreement and other costs including estates costs and food vouchers.

Co-operative Legal Services Limited, a subsidiary of the Co-operative Group Limited, provides legal cover to Co-op Insurance motor and home policyholders. Co-op Insurance has paid £1.2m (2016: £2.4m) in relation to this cover.

Co-op E-Store Ltd, a subsidiary of the Co-operative Group Limited, provides electrical goods to Co-op Insurance for marketing campaigns. Co-op Insurance has paid £0.1m (2016: £0.1m).

During 2017, transactions with The Co-operative Bank plc totalled £0.3m. The Co-operative Bank plc, which was deemed to be an associate undertaking of Co-operative Group until 1 September 2017 when Co-op Insurance's ultimate parent, Co-operative Group Ltd reduced its shareholding from 20% in The Co-operative Bank plc, to 1% in the restructured Co-operative Bank Holdings Limited group, which includes The Co-operative Bank plc. All transactions are up until the point at which the Co-operative Bank plc was no longer deemed to be an associate undertaking.

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

During the year management fees of £66.5m (2016: £66.7m) at cost were included in operating expenses and charged to Co-op Insurance from CFSMS.

All amounts are stated in £m unless otherwise indicated

29. Related party transactions (continued)

Key management (as defined by IAS 24) is considered to include the members of Co-op Insurance Board and Executive committee members.
Executive committee members are entitled to participate in the Co-operative Group wide long term incentive plan scheme which has a number of financial and non-financial performance measures. Details of transactions and balances during the financial period are provided below.

Key management compensation

	2017	2016
Salaries and short term benefits	**4.0**	3.4
Other long term benefits	**0.4**	0.2
	4.4	3.6

In respect of Executive and Non-Executive Directors

	2017	2016
Salaries and short term benefits	**1.4**	1.3
Other long term benefits	**0.1**	0.2
	1.5	1.5

In respect of the highest paid director:

	2017	2016
Salaries and short term benefits	**0.7**	0.6
Other long term benefits	**0.1**	0.2
	0.8	0.8

All staff costs are borne by CFSMS and the Co-operative Group, an allocation is then charged to Co-op insurance at cost.

30. Fair values of financial assets and liabilities

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

(a) Financial investments at fair value through income or expense

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

(b) Available for sale assets

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

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

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

(c) Borrowed funds

Fair value measurement is calculated on a current market price.

(d) Receivables and payables

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

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

All amounts are stated in £m unless otherwise indicated

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

Financial liabilities	Carrying value 2017	Fair value 2017	Carrying value 2016	Fair value 2016
Borrowed funds	**67.9**	**79.0**	67.7	76.5

Financial asset and liability classification

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

Statement of financial position categories

2017	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total
Assets					
Financial assets at fair value through income or expense	**197.2**	**-**	**-**	**-**	**197.2**
Available for sale assets	**-**	**-**	**664.6**	**-**	**664.6**
Other financial assets	**-**	**169.5**	**-**	**15.2**	**184.7**
Total financial assets	**197.2**	**169.5**	**664.6**	**15.2**	**1,046.5**
Non-financial assets					**134.3**
Total assets					**1,180.8**

2017	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Total
Liabilities					
Borrowed funds	**-**	**-**	**-**	**67.9**	**67.9**
Overdrafts	**-**	**-**	**-**	**5.9**	**5.9**
Other financial liabilities	**-**	**-**	**-**	**53.1**	**53.1**
Total financial liabilities	**-**	**-**	**-**	**126.9**	**126.9**
Non-financial liabilities					**761.0**
Total liabilities					**887.9**
Capital and reserves					**292.9**
Total liabilities and equity					**1,180.8**

Financial asset and liability classification
Statement of financial position categories

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

All amounts are stated in £m unless otherwise indicated

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

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

Comparative analysis has been re-presented to align with 2017 methodology

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

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

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

Valuation of financial instruments

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through income or expense	**-**	**197.2**	**-**	**197.2**
Available for sale assets	**-**	**664.6**	**-**	**664.6**
Total financial assets at fair value	**-**	**861.8**	**-**	**861.8**

Valuation of financial instruments

2016	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through income or expense	-	225.9	-	225.9
Available for sale assets	-	687.7	-	687.7
Total financial assets at fair value	-	913.6	-	913.6

The valuation techniques using observable inputs relate to debt securities that would otherwise be fair valued using quoted market prices but where there has been short term temporary market inactivity and borrowed funds with no active market price. In obtaining relevant fair values for financial assets, Co-op Insurance has obtained security specific prices from third party market makers based on what the third parties would have traded these particular securities for at the yearend date. Financial liabilities have been valued using observable inputs including discounted cash flows and comparable credit spreads.

All amounts are stated in £m unless otherwise indicated

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

Investments in debt securities as:	Carrying amount 2017	Fair value 2017	Amortised cost 2017
Available for sale financial assets	**664.6**	**664.6**	**647.3**

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

CIS General Insurance Limited

Registered under the Co-operative and Community Benefit Societies Act 2014
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Registered number: 29999R
www.co-opinsurance.co.uk