CIS General Insurance Limited

Annual report and accounts 2015

The co-operative insurance
Here for you for life

Part of The Co-operative Group Limited

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Principal Activities

CIS General Insurance Limited is a UK-based General Insurer that operates predominantly within the personal lines segments of the motor and home insurance markets under the Co-operative Insurance brand.

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

Financial Performance

Results summary	**2015**	2014	Change
	£m	£m	£m
Net earned premiums	**345.2**	372.6	(27.4)
Net policyholder claims and benefits incurred	**(244.1)**	(248.6)	4.5
Investment return	**18.2**	23.6	(5.4)
Commission and expenses (N1)	**(143.6)**	(154.5)	10.9
Other income	**11.2**	9.5	1.7
Finance costs	**(5.6)**	(3.4)	(2.2)
Loss before transformation costs and taxation	**(18.7)**	(0.8)	(17.9)
Costs in respect of Transformation Programme	**(47.4)**	(6.0)	(41.4)
Loss before taxation	**(66.1)**	(6.8)	(59.3)

(N1) Fee and commission expenses, other acquisition expenses and administration expenses.

	2015	2014	Change
Gross written premiums	**424.3**	365.2	59.1
Claims ratio (1)	**70.7%**	66.7%	
Commission and expense ratio (2)	**38.0%**	38.6%	
Combined operating ratio (3)	**108.7%**	105.3%	

(1) Net claims divided by net earned premiums

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

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

Co-operative Insurance financial performance for 2015 was a loss before taxation of £66.1m. This includes the cost of the Transformation Programme (£47.4m).

The loss before transformation costs and taxation includes the impact of severe weather events which affected the UK in December 2015. The best estimate cost of these events after reinsurance recoveries and reinstatement is £13.2m. In addition, there was a strengthening of Employers' Liability reserves on legacy commercial business of £5.6m. This was partly offset by a net £10.0m reduction (£10.8m reduction in motor; £0.8m increase in home) in the unexpired risk provision, as the future estimated value of claims and expenses is lower than the unearned premium reserve. Without these items the loss for 2015 before transformation costs and taxation would have been £9.9m.

Gross written premium increased by £59.1m (16%) to £424.3m, mainly as a result of market hardening and an increase in new business in motor during Q4 2015. In contrast, the competitive landscape of home is characterised by a soft premium environment. Retention of the direct channel book remains strong, reflecting the loyalty of our customers, the strength of the Group brand and Co-operative Insurance's service. Retention has grown in the motor business in the year, whilst home business has deteriorated slightly as a result of an increasingly competitive market.

Net earned premiums fell by 7%, reflecting the strategic decision in 2014 to withdraw from less profitable business sectors. The overall claims ratio deteriorated to 71% due to the additional cost of the severe weather events in December 2015 and the increase in Employer Liability reserves, without which the claims ratio would have been 65%.

Investment income returns remain at low levels, reflecting the yields currently available in the market and a revised Board Risk Appetite adopted in the year. In the context of increased execution risk as a result of the Transformation Programme, lower rated corporate bonds were sold and the proceeds predominantly reinvested in gilts and cash. The sale of investment assets during the year realised gains of £2.9m (2014: £3.0m).

The focus on cost management was maintained during 2015, with the commission and expense ratio (excluding transformation costs) remaining stable at 38% (2014: 39%). The costs associated with the implementation of the Transformation Programme are charged to the income statement as incurred, except where licenses or hardware have been acquired directly by Co-operative Insurance.

The IBM Master Services Agreement approved by the Board accelerated the timing of payments in 2015 and 2016 compared with the original plan but Co-operative Insurance nevertheless met its regulatory capital requirements at all times during 2015.

Co-operative Insurance has been monitoring available capital against Solvency II measures on a trial basis for the duration of 2015 to ensure that there was a smooth transition in January 2016. Based on the current strategic plan, it is projected that Co-operative Insurance will meet its capital buffer targets for the going concern horizon of 2016-2018, with an initial expected Solvency Capital Requirement (SCR) coverage of 140% in 2016 increasing to 186% as the impact of transformation expenditure reduces over the period. Co-operative Insurance achieved a 2015 year-end coverage on a Solvency II basis of 155%.

Developments in 2015

Strategy

The Co-operative Group 'Rebuild' Programme progressed throughout 2015. A key element of this programme is 'Transforming General Insurance', which executes the new strategy approved in 2014 and the core focus remains to reduce risk and regulatory capital requirements. The key elements of the strategy to achieve this are:

- Focus on existing customers of the Co-operative Group;
- Build strong data and analytical capabilities to utilise and leverage data captured by the Co-operative Group for the benefit of our members; and
- Develop key distribution partnerships.

To support the strategy Co-operative Insurance intends to leverage three sustainable competitive advantages:

- Brand – utilising the Co-operative brand by building a compelling proposition based around the Group purpose of 'Championing a better way of doing business for you and your community'. In a market where trust remains an important driver of purchase choice, research has shown that the Co-operative brand resonates strongly with consumers in this area.
- Privileged access to data – Co-operative Insurance has access to membership data of Co-operative Group companies, which provides valuable insights into members' potential insurance requirements. This information is used solely for the benefit of members to offer more competitively priced insurance products.
- Distribution reach – active marketing direct to consumers and through other Co-operative Group businesses with a focus on members will provide additional opportunities. This will be supported by widening the competitive position and underwriting footprint.

General Insurance Transformation

The Transformation Programme aims to deliver a step change in the way Co-operative Insurance engages with members and customers, improving experience whilst driving greater efficiency. The programme to design, configure and implement the new technology solution commenced in 2015. It is planned for all new and renewal business to be written on this technology beginning with home mid-year 2016.

The new operating model aims to bring expense ratios in line with market levels, provide flexibility to properly utilise the data available from within the Co-operative Group, increase premium and new business volume and enable the planned expansion of distribution partnerships. The key risk to Co-operative Insurance's Transformation Programme is execution risk.

Co-operative Insurance's profitability and capital base are significantly impacted by the implementation costs of the new Transformation Programme, both internal and external, and the requirement to dual run the existing and new operating models until all policies are transferred onto the new platform. In May 2015, Co-operative Insurance raised £70.0m of subordinated debt with a ten year term and a coupon rate of 12%. The funds support Co-operative Insurance's strategic plan implementation whilst maintaining its regulatory capital buffer at an appropriate level.

To ensure the correct focus is placed on developing and implementing the strategy, a specific governance structure is in place around the business Transformation Programme. A specific Board Committee has been formed with overall responsibility for delivering the programme, the Board Transformation Committee, which reports directly to Co-operative Insurance's Board. In addition to the Board Transformation Committee there is a pyramid of further committees with responsibilities for specific aspects of the Transformation Programme. Reporting to the Board Transformation Committee are the Transformation Executive Steering Committee and the Programme Design Authority which are the primary forums for the delivery of the Transformation Programme and which are accountable for managing the transformation, in particular overseeing cost, quality, timing and scope. There are a number of further sub-committees with reporting lines to the Transformation Executive Steering Committee and the Programme Design Authority. These reporting lines ensure that there is a properly understood and functional methodology to provide oversight and direction to the plan and an established escalation process for decision making and risk assessment.

Co-operative Insurance signed a ten year managed services agreement with IBM in June 2015 for the design and implementation of the new operating services, which will provide the foundation for a more agile and innovative business with IBM at its core, as well as enabling substantial cost efficiencies.

Co-operative Insurance aims to build a more innovative culture to seek to respond to customer demands and has begun to trial a number of suggestions developed by colleagues. One of the colleague innovations implemented in 2015 is the Transparent Pricing Tool, which has been favourably received by customers and generated national press coverage. The tool provides customers with an information guide to insurance using a range of digital diagrams.

The 2015 plan for the Transformation Programme set out to achieve a singular focus on delivery. All 2015 programme milestones have been achieved with the first release delivered in January 2016 and further releases are planned throughout 2016.

Group Restructuring

In October 2015, legal ownership of Co-operative Insurance was transferred from the Co-operative Banking Group Limited to its parent, the Co-operative Group Limited, as the programme of activity to separate the Bank from the Group continued. Formal service management agreements are now in place with the Co-operative Group suppliers with oversight provided by a joint governance framework. In addition, Co-operative Insurance and Co-operative Bank currently share infrastructure and systems, with both having programmes to exit this legacy estate. The main risk associated with the separation programme is execution risk, although this should be considered in the context of the benefits of the Co-operative Insurance Transformation Programme that are planned to accrue in the future.

Management Structure

The Co-operative Insurance Board has been strengthened, with the appointment of two independent Non-Executive Directors, a Senior Independent Director and the Chief Financial Officer who bring significant financial services and transformation experience to the Board. The management of Co-operative Insurance has also been strengthened with the appointment of a new Chief Operating Officer and Chief Information Officer.

Operational Developments

Alongside the development of the longer term strategy, Co-operative Insurance has delivered a series of operational improvements to increase short-term profitability.

In the personal lines business, substantial developments in the technical pricing models have been delivered, including the integration of membership data into motor insurance pricing into Direct and Price Comparison channels, the implementation of bespoke vehicle and credit score models into motor insurance pricing and the development of flood risk datasets. The continued commitment to deliver safety in the community is further enhanced through The Young Driver proposition, which now includes award-winning online interactive safe driving training modules. In addition, the motor proposition was further enhanced through the introduction of a new quote and buy functionality.

To strengthen the Commercial proposition for customers, Co-operative Insurance launched a new Commercial Lines insurance partnership to deliver a wider product breadth and increased income.

The implementation of an improved annual product review process with all products being reviewed against the conduct risk framework has improved the business's ability to deliver and evidence good customer outcomes.

An Adverse Development Cover reinsurance scheme was designed and implemented in 2015 to reduce reserving risk during the period of transformation and reduce required regulatory capital. Following the 2015 year end reserving review, management have concluded that the reserves are highly unlikely to reach the retention limit of the cover and have accordingly obtained approval from the Board to commute the cover.

Marketing activity has focused on maximising the benefits of being part of a Group of businesses and providing meaningful and tangible value to our members and customers. This has been evidenced by the success of the Great Grocery Giveaway campaign, which was commended in the 'Direct Marketing Campaign of 2015' of the Financial Services Forum awards. The use of these wider Co-operative strengths has enabled Co-operative Insurance to build strong customer offers which have delivered a sharp growth in customer and member response rates and also generated new revenue streams for the wider Group. Additionally, the focus on one-to-one marketing activity and exiting TV advertising improved marketing efficiencies substantially.

Investment in digital capabilities continued, with new customer servicing options introduced via Live Chat and Twitter. Our search engine optimisation strategy saw the launch of our content microsite, The Hub and our website became fully responsive. During 2015 a number of social media campaigns have been run, with these helping us to become one of the most followed direct insurers on Twitter. These campaigns were widely recognised, with Nostalgia FM, which generates a personalised playlist for its users appearing in NME's 'The 11 Genius Music Marketing Campaigns of 2015'. On the back of this success, Co-operative Insurance was shortlisted for four awards at the Data Analytics and Technology Awards, winning in two categories for Best Digital Project Team and Best Telematics-based Project of the Year.

Colleague

A new colleague Annual Incentive Plan was implemented in 2015. The plan is based on a balanced scorecard of measures which align to the Board's Key Performance Requirements. The full year outcome for these measures is as follows:

KPI	Weighting	Below Target <0%	On Target	Above Target 5%<	Actuals 2015	Against Target 2015
Customer Satisfaction (net promoter score)	1/6	Less than 28.5	30	Greater than 31.5	37.6	Above Target
Gross Written Premium (£m)	1/6	Less than £346.8	£365.1	Greater than £383.4	£424.3	Above Target
Loss Ratio Excluding prior year adjustments/ weather events/ management margin	1/6	Higher than 72.3%	68.9%	Lower than 65.4%	69.1%	On Target
Expenses (£m) Excl. Transformation costs	1/6	Higher than £128.8	£122.7	Lower than £116.6	£118.9	On Target
People Engagement Score (applies only to senior management)	1/6	55	58	67	63	On Target
Transformation: Performance to be assessed at GI RemCo with input from Board Transformation Committee	1/6	Red	Amber	Green	Amber	On Target

Market background

2015 was a challenging year with continuing high levels of competition, however there was significant upwards pressure on premium rates in motor in the second half of the year. This is evidenced in the market with several indices, including the AA British Insurance Price Index which reported a 10% increase (7% excluding Insurance Premium Tax rate increase) in premiums across Q4 2015. Home pricing was largely stable with downwards pressure as a result of increased focus on the home market from a number of competitors.

Investment yields remain low and continue to reinforce the importance of maintaining underwriting discipline and investment in pricing and data capabilities.

Technology change continues to be rapid and is being leveraged to deliver new and innovative customer propositions.

The Flood Re scheme will launch in April 2016 to ensure that those domestic properties in the UK at the highest risk of flooding can receive affordable cover for their household property insurance. The scheme is funded by the flood element of such customers' premium and the creation of an additional industry-wide levy. Co-operative Insurance is preparing for the introduction of the scheme and is fully supportive of Flood Re's aim to meet future customer needs to support members and their communities.

Regulatory change

Co-operative Insurance continued to work towards the launch of Solvency II, the new European Union rules on solvency which became effective on 1 January 2016. Significant work was undertaken in the year to develop and test the business's preparedness to implement the new regulatory framework, including validation by external consultants which has been shared with the Prudential Regulation Authority (PRA) and the business is now operating under the Solvency II regime.

The Financial Conduct Authority (FCA) finalised its rules on how firms handle and report complaints in July 2015. The new requirements are a significant change to current practice and firms must be compliant by 30 June 2016. In early 2015 the FCA issued a paper on vulnerable customers with the aim of stimulating debate and interest in the topic. Firms are expected to continually evaluate processes and practice to ensure fair customer outcomes are achieved.

The FCA began a debate with the industry on smarter consumer communications with the aim of exploring opportunities and initiate change in how firms communicate key information to consumers, starting with a consultation to remove certain disclosure requirements. The FCA set out their remedies to address add-on sales, issuing in September 2015 finalised rules banning opt-out selling across financial services and set out requirements for the provision of information to customers buying add-on products.

The FCA issued its first publication exploring a potential range of options for introducing a measure, or measures, of value in general insurance markets. The regulator is yet to finalise any plans in this space but they have indicated they are looking to introduce such measures in an attempt to highlight poor value in the market place, increase competition on value, and incentivise firms to improve value for consumers.

Regulatory scrutiny remains high across the industry, with continuing focus from the FCA on increasing transparency and improving customer outcomes. Co-operative Insurance supports this agenda and will continue to improve transparency by leveraging the capability delivered through the Transformation Programme.

Outlook

The developments implemented by Co-operative Insurance in 2015 have strengthened its ability to respond to the challenging market conditions expected over the next 12 to 18 months. In line with the wider market, insurers are strengthening technical capabilities in pricing and underwriting together with increased use of data enrichment. Investment returns are forecast to be subdued for some time which will increase the focus on underwriting discipline in the medium term.

The level of regulatory change seen in 2015 looks likely to continue throughout 2016. The FCA focus on consumer protection and competition within markets is a key driver for a number of initiatives. In late 2015 the FCA issued a consultation on proposals to introduce new rules and guidance for firms on steps they should take when renewing general insurance policies. The proposed changes will have a significant impact on the renewal processes currently adopted by general insurers. The FCA also, as set out in their business plan 2015/2016, engaged with general insurers on 'big data' to understand how its use is affecting consumer outcomes and competition in the retail general insurance sector. Co-operative Insurance supports this customer agenda and is committed to use data only to benefit customers through improved pricing.

Late in 2015 the FCA published a paper on its plans for implementing a regulatory 'sandbox'. The goal of the 'sandbox' is to encourage firms to experiment with new, innovative financial products, services or business models without incurring all the normal regulatory consequences of engaging in those activities. Co-operative Insurance expects to access this opportunity as the Transformation Programme provides the opportunity for the development of new products, through access to the new IBM supported core systems platform.

In 2015, the Council of the European Union (EU) adopted the Insurance Distribution Directive which aims to standardise and improve EU wide consumer protection in the insurance sector. The FCA will have two years to incorporate the new regime into domestic legislation and ensure implementation by firms.

The implementation of the Senior Insurance Managers Regime (SIMR) in 2016 will enhance the Regulators' aim of strengthening individual accountability within financial services firms, specifically Solvency II firms. SIMR will require Co-operative Insurance to review its Approved Persons population and map individuals into the relevant SIMF position when the regime comes into force, filing a new application for those individuals who are not currently an Approved Person. Co-operative Insurance is required to develop a Governance Map and will be required to maintain and update this on a quarterly basis.

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 to earnings and capital that may arise as a result of strategic/management decisions or business choices or lack of responsiveness to changes in the business environment	34
Transformation risk	The risk that failure of programme leads to the business failing to re-platform, leading to the need for an alternative strategy to be deployed with cost, time and business sustainability impacts	34
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	34
Conduct risk	The risk that Co-operative Insurance's behaviours, offerings or interactions will result in unfair outcomes for customers	35
Regulatory risk	The risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK and EU regulatory requirements	35
Insurance risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities	35
Market risk	The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers e.g. interest rates, market prices of assets and liabilities	36
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events	37
People risk	The risk associated with the recruitment, employment and management of individuals within Co-operative Insurance	38
Liquidity risk	The current and prospective risk to earnings or capital arising from Co-operative Insurance's inability to meet its obligations when they come due without incurring unacceptable losses	38
Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations	39
Pension risk	The risk to capital and company funds from exposure to scheme liabilities (to the extent liabilities are not met by scheme assets) and risks inherent in the valuation of scheme liabilities and assets	41
Group risk	The risks that arise through being part of the Co-operative Group	41

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

Co-operative Insurance's proposed Transformation Programme also gives rise to execution risk. This has been recognised by management through the setting up of Transformation committees, at Executive and Board level, to mitigate this risk over the implementation period.

Key Performance Indicators

The business strategy for Co-operative Insurance measures success in five key areas: financial and trading; customer; colleague; capital adequacy & risk and brand strength. This 'balanced scorecard' approach is a key reflection of our co-operative difference and helps us ensure that in the decisions we make as a business we focus on the implications to areas identified as key in our progress towards our strategic vision.

Indicator	2015	2014
Financial and trading *Financial and trading measures focus on profitability, volumes and efficiency*		
Gross written premium This shows the level of premium income that combined business classes are bringing in to Co-operative Insurance.	**£424.3m**	£365.2m
Combined operating ratio This compares the levels of claims, costs and commissions being paid out against the level of earned premium	**108.7%**	105.3%
Profit/(Loss) before tax This shows the level of profit/(loss) before tax (excluding Transformation costs)	**(£18.7m)**	(£0.8m)
In force policy count Policies in force is the number of policies Co-operative Insurance hold at the balance sheet date	**1,426,047**	1,294,329
Customer *Customer measures report on customer contacts throughout the customer journey*		
Customer satisfaction This score represents customers' level of satisfaction with the performance of customer service advisers	**62.2**	62.7
Colleague *Colleague measures focus on key internal relationships*		
Colleague engagement Our colleague engagement assessment is derived from our twice-yearly internal colleague survey. This is a combined score for all functions within the end to end business	**63%**	55%
Capital adequacy & risk *Risk measures focus on capital adequacy and risk appetite*		
Risk appetite For each of the principal risks, Co-operative 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-operative Insurance must maintain. At any one time Co-operative Insurance must ensure it has sufficient capital to meet the most onerous of these requirements	All externally imposed capital requirements have been exceeded	
Brand Strength *Brand strength metrics focus on key external relationships through which we sustain and grow our business*		
Awareness A measure of how likely a potential customer is to recognise a brand. This is an independent measure of awareness of Co-operative Insurance within the wider market. The year on year decrease is driven by the marketing strategy to exit TV advertising in favour of direct marketing activity.	**5.5%**	6.8%
Social listening A measure of unprompted perceptions of Co-operative Insurance through social media networks. The score monitors the number of negative posts, as a percentage of total posts, in a given period. The year on year decrease therefore represents an improved position	**17.9%**	38.6%

By order of the Board
Katy Arnold, Secretary
6 April 2016

The Board

Non-Executive Directors:

Robert (Bob) Newton (Chairman)	Appointed to the Board as a Non-Executive Director in August 2007 and became Chairman in July 2012. BSc, FIA, CDir. Over 40 years' experience in the Financial Services industry. Chair of Silentair Group Limited and Non-Executive Director of Reclaim Fund Ltd. Committees: Chair of Nomination Committee.
Neil McKenzie (Senior Independent Director)	Appointed to the Board as a Non-Executive Director in November 2013 and was appointed Senior Independent Director in November 2015. FCII. Over 30 years' General Insurance experience, having worked for a range of organisations in senior leadership positions. Non-Executive Director of JBS Executive Education Limited. Committees: Chair of Risk Committee and member of the Audit and Nomination Committees.
David Lister (Independent Non-Executive Director)	Appointed to the Board as a Non-Executive Director in December 2014. Over 35 years' experience of technology and transformation working in senior roles in a wide range of industries most recently Group Chief Information Officer for National Grid. Non-Executive Director of HSBC Bank plc, Nuffield Health, Department of Work and Pensions and The Tech Partnership. Committees: Chair of Transformation Committee and member of Remuneration and Risk Committees.
Caroline Fawcett (Independent Non-Executive Director)	Appointed to the Board as a Non-Executive Director in December 2014. BSc (Hons) DipM MCIM. Over 20 years in senior marketing and customer experience roles in the financial services industry and the public sector, most recently as Founder and Lead Consultant for Customer Experience First Ltd. Non-Executive Director of The Money Advice Service. Committees: Chair of Remuneration Committee and member of Risk and Transformation Committees.
Graham Singleton (Independent Non-Executive Director)	Appointed to the Board as a Non-Executive Director in December 2014. BSc, ARCS, FIA. Over 30 years' experience in the Financial Services industry, having worked for a range of organisations in senior positions including in Actuarial, CFO and CEO roles. Currently insurance advisor to Apollo Management International LLP and Amissima Insurance Group, Italy. Executive Director of Tayam Consulting Limited. Committees: Chair of Audit Committee and member of Risk and Transformation Committees.
Julie Hopes (Independent Non-Executive Director)	Appointed to the Board as a Non-Executive Director in July 2015. Over 20 years' experience in insurance, specialising in General Insurance predominantly in personal lines. Previous roles include Managing Director, General Insurance, Tesco Bank, International Operations and IT Director, Royal and Sun Alliance Insurance and Managing Director Royal and Sun Alliance Affinity. Non-Executive Director of Police Mutual Assurance Society and Orbit Living Housing Association. Committees: Member of the Audit, Transformation and Remuneration Committees.
Diane Buckley (Independent Non-Executive Director)	Appointed to the Board as a Non-Executive Director in July 2015. Diane has longstanding experience in the insurance industry and previously worked for Legal & General for 27 years where her roles included Managing Director of General Insurance and Group Protection divisions. Committees: Member of the Audit, Risk and Nomination Committees.

Non-Executive Directors: (continued)

Alistair Asher
(Non-Executive Director)

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

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

Committees: Member of the Transformation Committee.

Executive Directors:

Mark Summerfield
Chief Executive Officer

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

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

Kieran O`Keeffe
Chief Financial Officer

Appointed to the Board as an Executive Director in January 2016.

ACA, BA (Hons) Cantab. 20 years insurance sector experience. Joined Co-operative Insurance as Chief Financial Officer in 2014 having previously held senior finance, risk and operational roles in Lloyds Banking Group, Direct Line and Liverpool Victoria.

Report of the Board of Directors

General Information
CIS General Insurance Limited (Co-operative 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-operative Insurance is a wholly owned subsidiary of Co-operative Group Limited (Group).

Directors' Details
The Directors biographies are provided on pages 8 and 9.

Details of appointments and resignations during the financial year, and changes since the end of the financial year are provided on page 11.

Details of the Directors offering themselves for re-appointment at the next Annual General Meeting are provided on page 12.

Employees
Co-operative 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 2015 Annual Report contains details of how the Group, including Co-operative Insurance, manages its social, ethical and environmental impacts.

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

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

Statement of Going Concern
The Annual Report and Accounts are prepared on a going concern basis and the Directors are satisfied that Co-operative 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 24.

Viability Statement
The UK Corporate Governance Code now requires listed companies to produce a longer-term Viability Statement and while Co-operative Insurance is exempt the Directors have chosen to adopt this as best practise.

The Directors have made their viability assessment over a three year period, supported by detailed stress testing which is reviewed on an annual basis. The principal risks of the business (as detailed on pages 34 to 41) are considered against stress and reverse stress test scenarios, to establish the impact on the financial performance and capital adequacy of the business of both single and multiple risk events. In addition, management actions have been identified which would be implemented to mitigate the impact of each potential scenario and stress.

This detailed analysis, supported by a robust risk framework (see page 31) provides the Directors with a reasonable expectation that Co-operative Insurance will remain in operation and continue to meet its obligations as they fall due until December 2018.

Corporate Governance Report

Compliance with the UK Corporate Governance Code
The UK Corporate Governance Code, published by the Financial Reporting Council in 2014 (the 'Code'), set out standards of good practice in relation to Board leadership, effectiveness, remuneration, accountability and relations with shareholders.

It is not mandatory for Co-operative Insurance to comply with the Code, however, where possible and appropriate, Co-operative Insurance aims to conform to the key principles of the Code to ensure alignment with best practice.

Rule Book
At a Special General Meeting in July 2015, Co-operative Group members voted in favour of a new Rule Book which through the parent company defines Co-operative Insurance's governance structure. The new Rule Book was registered in September 2015. A copy of the Rule Book is available on request.

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

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

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

Board Composition
Activity continued in 2015 to strengthen the Board through the appointment of two additional Non-Executive Directors. The Board now comprises the Chairman, two Executive Directors, six Independent Non-Executive Directors and one Non-Executive Director. At the current time the Board believes that there is an appropriate balance of Executive, Non-Executive and Independent Non-Executive Directors on the Board but will review this on a regular basis to ensure the Board remains appropriately constituted.

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

The Directors of Co-operative Insurance during the financial year are listed below. Their appointments were for the full period unless otherwise stated. The Directors biographies and details of length of service are set out on pages 8 and 9.

	Date of appointment	Date of resignation
Non-Executive Directors:		
Bob Newton (Chairman)		
Neil McKenzie (Senior Independent Director)		
David Lister		
Caroline Fawcett		
Graham Singleton		
Julie Hopes	23 July 2015	
Diane Buckley	23 July 2015	
Alistair Asher		
David Davies		21 January 2015
Executive Directors:		
Mark Summerfield (Chief Executive Officer)		
Kieran O`Keeffe	15 January 2016	
Secretary		
Katy Arnold	1 May 2015	
Pat Wade		1 May 2015

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

Role of the Senior Independent Director (SID) (Neil McKenzie)
Co-operative Insurance appointed a SID in October 2015.
- Provides a sounding board for the Chair and serves as an intermediary for other Directors where necessary
- Leads the annual evaluation of the performance of the Chair and ensures that this is effectively conducted
- Chairs the Nomination Committee when it is considering succession to the role of Chair of the Board
- Is available to the Members if they have concerns which contact through the normal channels of the Chair, Chief Executive Officer or Chief Financial Officer has failed to resolve or for which such contact is inappropriate

Role of the Chief Executive Officer (Mark Summerfield)
- Responsible for the day-to-day management and leadership of Co-operative 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-operative Insurance, with the exception of those matters that are reserved for the Board

Role of a Non-Executive Director
(Bob Newton, Neil McKenzie, Alistair Asher, Caroline Fawcett, Graham Singleton, David Lister, Diane Buckley, Julie Hopes)
- 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
- Ensure 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

Role of a Non-Executive Director (continued)
(Bob Newton, Neil McKenzie, Alistair Asher, Caroline Fawcett, Graham Singleton, David Lister, Diane Buckley, Julie Hopes)

- Ensures robust systems of risk management and financial controls are in place
- Access to independent professional advice as required

Role of an Executive Director (Kieran O'Keeffe)

- Manages the day-to-day business of Co-operative Insurance
- Proposes a purpose and strategy to the Board, in line with the Values and Principles of Co-operative 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

Role of the Secretary (Katy Arnold)

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

Appointment and Re-appointment of Directors

In accordance with the Rule book, appointments to the Board are made by the Board of Directors with the exception of one position. The Group is entitled to appoint one person holding an Executive position with the Group onto the Board. This position is currently held by Alistair Asher, Group Legal Counsel.

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

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

Julie Hopes and Diane Buckley offer themselves for re-appointment at the AGM on 14 June 2016. Julie and Diane continue to demonstrate commitment to their roles.

Board Committees

To assist the Board in carrying out its functions and to ensure that there is independent oversight of internal controls and risk management, the Board has delegated certain of its responsibilities to five principal Board Committees, namely, the Audit Committee, the Risk Committee, the Remuneration Committee, the Transformation Committee and the Nomination Committee. Membership of these Committees consists entirely of Non-Executive Directors. The role of each Committee can be found on pages 14 to 16.

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. During the year each Committee reviewed its Terms of Reference.

Operation of the Board

The Board continues to meet on a monthly basis and there were 14 principal Board meetings held during the financial year (including a meeting to consider the 2014 Report and Accounts and a meeting to approve the 2016-2020 Strategic Plan). The table below sets out the number, and related attendance at the principal Board and Committee meetings, by Board and Committee members, for the period under review.

In the case of a Director being unable to attend a meeting, the relevant Chair received a satisfactory reason for their absence. All Directors, including those that are not able to attend, receive papers for Board and Committee meetings via a Board Portal which is accessed via 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. All Directors have open access to the Chair and Senior Independent Director and may request a private meeting.

	Board	Audit Committee	Risk Committee	Transformation Committee	Remuneration Committee	Nomination Committee
TOTAL MEETINGS 2015	**14**	**9**	**4**	**10**	**7**	**1**
Bob Newton (Chairman)	14(14)	-	-	-	-	1(1)
Neil McKenzie	14(14)	9(9)	4(4)	-	-	1(1)
David Davies	1(1)	1(1)	-	-	-	-
David Lister	12(14)	3(4)	4(4)	9(10)	6(7)	-
Caroline Fawcett	14(14)	-	4(4)	8(10)	7(7)	-
Graham Singleton	14(14)	9(9)	4(4)	10(10)	-	-
Julie Hopes	4(6)	3(4)	-	2(3)	4(4)	-
Diane Buckley	6(6)	4(4)	1(1)	-	-	1(1)
Alistair Asher	9(14)	-	-	7(10)	-	-
Mark Summerfield	13(14)	-	-	-	-	-

The number in brackets indicates the number of meetings the Director was required to attend in their capacity as a Director/Committee member. The Chairs of the Audit, Risk and Transformation Committees have also extended an open invitation to Directors to attend.

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-operative Insurance, and includes briefing sessions with members of the Executive team.

As part of the Approved Person's process an individual training and development programme is designed and maintained for each Director which is reviewed periodically. During 2015, the Chairman and the Secretary met each Non-Executive Director to discuss individual training and development needs and each Director's programme was updated accordingly with the outputs from these sessions.

Throughout 2015 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 formal training sessions.

Board & Committee Evaluations
The Co-operative Insurance Board, in accordance with best practice, ensures an evaluation of the Board is conducted annually.

The Board this year began the process of conducting an internal evaluation. The process is being led by the Chair and involves Directors being asked to rate their satisfaction with key areas such as the timeliness and usefulness of information provided to Directors, the culture and communication within the Board room and with the Board and key Committees, together with any training and development needs. The evaluation is being facilitated through a tailored questionnaire.

The results of the Board evaluation are due to be discussed by the Board at its meeting in April 2016 and the results will directly inform the Nomination Committee's nomination and appointment strategy for the Board together with the programme of Board Training & Development.

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

During Q4 2015 an Internal Audit entitled 'Systems of Governance' was conducted. One of the aims of the audit was to review the Co-operative Insurance corporate governance framework. The findings were circulated to the Board in Q1 2016.

During 2016, the Directors, led by the Senior Independent Director, will be responsible for the performance evaluation of the Chair.

Board Code of Conduct
In accordance with the Rule Book, the Board adopted a Code of Conduct in October 2015. The Code of Conduct 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 onto the Co-operative Insurance Board by the Group, in accordance with the Co-operative Insurance Rule Book (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.

Neil McKenzie, David Lister, Caroline Fawcett, Graham Singleton, Julie Hopes and Diane Buckley met the full test of independence during the financial year. The assessment of independence is based on the fact that each of these directors has served less than nine years in their current roles, receive no additional benefits from Co-operative Insurance or the Group, and have not previously held an executive role within Co-operative Insurance or the Group. The Board believes that there are no current or past matters which are likely to affect their independent judgement.

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

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

Relationship with Co-operative Group Limited
In Q4 2015 steps were taken to formalise a reporting framework between the Boards of Co-operative Insurance and the Group in recognition by both Boards that it is fundamental that there are open communication channels. The framework consists of a number of elements including regular one to one meetings between the Board and Committee Chairs and the Senior Independent Directors, and annual attendance at the other's Risk and Audit Committee meetings.

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

The Board has adopted a Conflicts of Interests Policy, contained within the Board Code of Conduct, which aims to ensure that conflicts of interest are appropriately managed through effective organisational and administrative arrangements with a view to taking all reasonable steps to prevent actions that are either contrary to the interests of Co-operative 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, other than a service contract, with Co-operative Insurance.

Insurance and Indemnities
Co-operative 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 2015.

Directors Remuneration
The table below sets out the fees paid to the Non-Executive Directors of Co-operative Insurance for the year ended 31 December 2015.

In accordance with the Rule Book (Rule 7.12), the member of the Group Executive appointed onto the Board by the Group is not entitled to any fees in respect of their Board appointment. Alistair Asher does not therefore receive any fees in respect of his appointment to the Co-operative Insurance Board. The remuneration for Alistair Asher as an Executive of the Group is appropriately disclosed in the 2015 Group Report & Accounts. No emoluments are paid directly to Alistair Asher by Co-operative Insurance.

In accordance with the Rule Book (Rule 7.11), any Executive Director appointed onto the Board is not entitled to any fees in respect of their Board appointment. Mark Summerfield and Kieran O'Keeffe are not therefore entitled to any fees in respect of their Board appointments. In respect of their Co-operative Insurance Executive positions, Mark Summerfield is employed by the Group and Kieran O'Keeffe is employed by CFS Management Services Limited (CFSMS), a subsidiary of the Group.

Fees for the year ended 31 December 2015 were set at £42,500 per annum for Non-Executive Directors and £110,000 for the Chairman.

	Notes	2015 Fees (£000)	2014 Fees (£000)
Bob Newton (Chair)	1	104	-
Neil McKenzie	2	53	45
Caroline Fawcett	3	50	4
Graham Singleton	4	54	4
David Lister	5	50	3
Diane Buckley	6	20	0
Julie Hopes	7	20	0
David Davies	8	2	35

Notes:
1. During 2014 Bob Newton also sat on the Board of Co-operative Banking Group Limited and his fee for that appointment included his appointment to the Co-operative Insurance Board. The fee for 2014 could not therefore be meaningfully apportioned to Co-operative Insurance.
2. Neil McKenzie acted as Chair of the Risk Committee during the period and the associated fee of £10,000 per annum is included above. He was appointed as Senior Independent Director with effect from 17 November 2015 and the associated fee of £5,000 per annum pro rata is included above.
3. Caroline Fawcett acted as Chair of the Remuneration Committee during the period and the associated fee of £7,500 per annum is included above.
4. Graham Singleton was appointed Chair of the Audit Committee with effect from 21 January 2015 and the associated fee of £10,000 per annum pro rata is included above. He acted as Chair of the Transformation Committee during the period 1 January 2015 to 1 April 2015 and the associated fee of £10,000 per annum pro rata is included above.
5. David Lister was appointed as Chair of the Transformation Committee with effect from 1 April 2015 and the associated fee of £10,000 per annum pro rata is included above.
6. Diane Buckley was appointed to the Board with effect from 23 July 2015.
7. Julie Hopes was appointed to the Board with effect from 23 July 2015.
8. David Davies retired from the Board with effect from 21 January 2015

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 whistleblowers 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 and Head 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 nine meetings during the year.

The Committee members during the financial year are listed below. Their appointments were for the full period unless otherwise indicated. David Davies was Interim Chair of the Audit Committee until his resignation on 21 January 2015. For the period 21 January 2015 until 31 March 2015 Graham Singleton was Interim Chair of the Audit Committee and this position became permanent on 1 April 2015.

Audit Committee (continued)

Audit Committee Member	Date of appointment	Date of resignation
Graham Singleton (Chair)		
Neil McKenzie		
Diane Buckley	23 July 2015	
Julie Hopes	23 July 2015	
David Davies		22 January 2015
David Lister		23 July 2015

Change of Auditors

Ernst & Young LLP have expressed their willingness to be appointed and succeed KPMG LLP as auditors of Co-operative Group Limited and its subsidiaries. Upon the recommendation of the Group Risk and Audit Committee, a resolution to appoint Ernst & Young LLP as auditors and to authorise the Directors to determine their remuneration will be proposed at the Group AGM on 21 May 2016.

Risk Committee

The purpose of the Risk Committee is to oversee and advise the Board on Co-operative 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 and Chief Risk Officer, although none attend as of right.

The Committee held four meetings during the financial year.

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

Risk Committee Member	Date of appointment	Date of resignation
Neil McKenzie (Chair)		
Caroline Fawcett		
Graham Singleton		
David Lister		
Diane Buckley	23 July 2015	

Remuneration Committee

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

The inaugural meeting of the Remuneration Committee was held on 18 March 2015 and the Committee held seven meetings during the year. Prior to this all remuneration related topics were addressed by either the Board or the Group.

Meetings of the Remuneration Committee are generally attended by the Chief Executive Officer and the Human Resources Business Partner, although neither attend as of right.

During the financial year the Committee appointed New Bridge Street (an Aon Hewitt company) as its remuneration advisors. New Bridge Street supplies survey data, market trends and other general remuneration advice and attends Committee meetings at the request of the Committee Chair.

New Bridge Street also acted as remuneration advisors to the Group during the year. For the purposes of avoiding conflicts of interest, New Bridge Street confirmed on appointment that it would treat each entity as a separate client and would not share any information not already in the public domain. Co-operative Insurance has a separate engagement letter with New Bridge Street.

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

Remuneration Committee Member	Date of appointment	Date of resignation
Caroline Fawcett (Chair)		
David Lister		
Julie Hopes	23 July 2015	
Bob Newton	25 February 2015	23 July 2015

Transformation Committee

The purpose of the Transformation Committee is to oversee Co-operative 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 inaugural meeting of the Committee took place in January 2015 and the Committee held ten meetings during the year.

Meetings of the Transformation Committee are generally attended by the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Head of Internal Audit and Transformation Director, although none attend as of right. In addition key members of the Transformation Programme including representatives from IBM and Innovation Group attend, as appropriate.

Transformation Committee (continued)

The Committee members during the financial year are listed below. Their appointments were for the full period unless otherwise indicated. Graham Singleton was Chair of the Transformation Committee until 1 April 2015. David Lister was appointed Chair of the Transformation Committee with effect from 1 April 2015.

Transformation Committee Member	Date of appointment	Date of resignation
David Lister (Chair)		
Graham Singleton		
Caroline Fawcett		
Alistair Asher		
Julie Hopes	23 July 2015	

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 was established in September 2015 and prior to this, all nomination related matters were dealt with by the Board.

The Committee held its inaugural meeting on 16 December 2015 at which the focus of discussion was Board and Executive Succession Planning. This included a review of the Board Skills Matrix as detailed on page 13.

The Board is well aware of the importance of promoting diversity on the Board recognising that a diverse Board represents the views of society, brings a wide range of skills and knowledge to the Board, and enhances challenge and discussion from a diverse range of viewpoints. The Board considers diversity to be an important part of search mandates for new appointments and the Nomination Committee will look to develop a Board Diversity policy during 2016.

Co-operative Insurance engaged external search consultancy MWM Consulting during 2015 to assist in the search for Non-Executive Directors.

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

Nomination Committee Member	Date of appointment	Date of resignation
Bob Newton (Chair)	16 September 2015	
Diane Buckley	16 September 2015	
Neil McKenzie	16 September 2015	

Risk Management and Internal Controls

The Board has overall responsibility for The Co-operative 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. The Co-operative Insurance approach to Risk Management is set out in further detail on pages 31 to 33.

The Co-operative Insurance 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 The Co-operative Insurance's internal control systems. Its monitoring covers all material controls. Principally it reviews and challenges on an ongoing basis, reports from management, the internal audit function and external Auditors. This enables it to consider how to manage or mitigate risk in line with The Co-operative Insurance's risk strategy. The Audit Committee did not identify or report any material failings to the Board in 2015.

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

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

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

Co-operative and Community Benefit Society Law, as modified by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 ('the Regulations'), requires the directors to prepare accounts for each financial year. In accordance with the Regulations, the directors have elected to prepare Co-operative 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-operative Insurance and of its profit or loss for that period. In preparing these accounts, the directors are required to:

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

The directors are of the view that the Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the society's 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-operative 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-operative Insurance and to prevent and detect fraud and other irregularities.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Co-operative 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

6 April 2016

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

We have audited the accounts of CIS General Insurance Limited (Co-operative Insurance) for the year ended 31 December 2015 set out on pages 19 to 30, in the Insurance risk, Market risk, Liquidity risk and Credit risk notes on pages 35 to 41, notes (a), (b) and (c) on pages 42 and 43 and on pages 44 to 63. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to Co-operative Insurance members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to Co-operative Insurance and as modified by the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 and to facilitate compliance with section 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to Co-operative Insurance members those matters we are required to state to them in an auditor's report and to facilitate compliance by Co-operative Insurance directors with the requirement relating to section 496 of the Companies Act 2006, as applied to Co-operative Insurance by Regulation 3 of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Co-operative Insurance and Co-operative Insurance members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 17, the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the accounts accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounts

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

Opinion on the accounts

In our opinion the accounts:

- give a true and fair view of the state of Co-operative Insurance affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU, as applied in accordance with the provisions of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which apply the provisions of chapters 4 and 5 of part 15 of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008, which modify and apply the Co-operative and Community Benefit Societies Act 2014.

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

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the accounts are prepared is consistent with the accounts.

Matters on which we are required to report by exception

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

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

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

6 April 2016

Income statement

For the year ended 31 December 2015

All amounts are stated in £m unless otherwise indicated

	Notes*	2015	2014
Income			
Gross earned premiums		**375.8**	400.0
Less premiums ceded to reinsurers		**(30.6)**	(27.4)
Net earned premiums	2	**345.2**	372.6
Fee and commission income	3	**11.2**	9.5
Investment income	4	**15.3**	20.6
Gains less losses arising from financial instruments	5	**2.9**	3.0
Net income		**374.6**	405.7
Claims paid		**(292.4)**	(364.4)
Less amounts receivable from reinsurers		**6.0**	7.8
Net policyholder claims and benefits paid	6	**(286.4)**	(356.6)
Change in insurance contract liabilities	20	**45.6**	91.1
Change in reinsurance assets	20	**(3.3)**	16.9
Net policyholder claims and benefits incurred		**(244.1)**	(248.6)
Fee and commission expenses	7	**(19.8)**	(16.7)
Other acquisition expenses	8	**(28.4)**	(47.1)
Administration expenses	8	**(95.4)**	(90.7)
Costs in respect of Transformation Programme	8	**(47.4)**	(6.0)
Finance costs		**(5.6)**	(3.4)
Loss before taxation		**(66.1)**	(6.8)
Income tax	9	**14.3**	(0.1)
Loss for the financial year		**(51.8)**	(6.9)

* Refer to pages 44 to 63 for notes to the financial statements.

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

Statement of comprehensive income

For the year ended 31 December 2015
All amounts are stated in £m unless otherwise indicated

	Notes*	2015	2014
Loss for the financial year		**(51.8)**	(6.9)
Items that are or may be reclassified to the income statement:			
Changes in available for sale assets:			
Net changes in fair value		**(5.9)**	28.9
Net gains transferred to the income statement		**(2.9)**	(3.0)
Income tax	21	**1.8**	(5.5)
Other comprehensive (expense)/income for the financial year, net of income tax		**(7.0)**	20.4
Total comprehensive (expense)/income for the financial year		**(58.8)**	13.5

* Refer to pages 44 to 63 for notes to the financial statements.

Total comprehensive income for the financial year is attributable to Co-operative Insurance's equity holders and relates to continuing activities. All items will be reclassified subsequently to the income statement when assets are sold.

Balance sheet

At 31 December 2015

All amounts are stated in £m unless otherwise indicated

	Notes*	2015	2014
Assets			
Property, plant and equipment	10	**0.8**	0.2
Intangible assets	11	**1.7**	1.6
Deferred acquisition costs	12	**28.1**	20.2
Reinsurance assets	20	**68.5**	71.9
Financial investments at fair value through income or expense	13	**199.1**	156.3
Available for sale assets	14	**692.0**	764.6
Current tax assets	21	**9.6**	-
Insurance receivables and other assets	15	**219.8**	159.2
Total assets		**1,219.6**	1,174.0
Capital and reserves attributable to equity holders			
Share capital	17	**268.0**	268.0
Retained earnings	18	**(8.8)**	43.0
Other reserves	18	**63.4**	70.4
Total equity		**322.6**	381.4
Liabilities			
Insurance contract liabilities	20	**746.2**	737.6
Borrowed funds	19	**67.7**	-
Deferred tax liabilities	21	**5.0**	5.6
Current tax liabilities	21	**-**	10.6
Reinsurance liabilities	22	**7.4**	0.5
Insurance and other payables	23	**67.1**	30.4
Bank overdraft	16	**3.6**	7.9
Total liabilities		**897.0**	792.6
Total equity and liabilities		**1,219.6**	1,174.0

* Refer to pages 44 to 63 for notes to the financial statements.

Approved by the Board of Directors on 6 April 2016 and signed on its behalf by:

Robert Newton, Chairman

Mark Summerfield, Director

Katy Arnold, Secretary

Statement of cash flows

For the year ended 31 December 2015
All amounts are stated in £m unless otherwise indicated

	Notes*	2015	2014
Cash flows from operating activities			
Loss before taxation		**(66.1)**	(6.8)
Adjustment for:			
Interest payable		**5.6**	3.4
Amortisation of investments		**(12.0)**	(11.9)
(Increase)/decrease in deferred acquisition costs		**(7.9)**	15.1
Decrease/(increase) in reinsurance assets		**3.4**	(15.1)
Decrease in available for sale assets		**75.8**	36.6
(Decrease)/increase in financial investments at fair value through income and expense		**(42.8)**	51.3
(Increase)/decrease in insurance receivables and other assets		**(60.6)**	49.3
Increase/(decrease) in insurance contract liabilities		**8.6**	(128.7)
Increase in reinsurance liabilities		**6.9**	0.5
Increase in insurance and other payables		**33.9**	12.5
Income tax paid	21	**(1.8)**	-
Net cash flows from operating activities		**(57.0)**	6.2
Cash flows from investing activities			
Purchase of tangible fixed assets		**(0.7)**	(0.2)
Purchase of intangible fixed assets		**(0.1)**	(1.6)
Net cash flows from investing activities		**(0.8)**	(1.8)
Cash flows from financing activities			
Increase/(decrease) in subordinated loans		**67.7**	-
Interest paid		**(5.6)**	(3.4)
Net cash flows from financing activities		**62.1**	(3.4)
Net increase in cash and cash equivalents		**4.3**	1.0
Cash and cash equivalents at the beginning of the financial year		**(7.9)**	(8.9)
Cash and cash equivalents at the end of the financial year	16	**(3.6)**	(7.9)

* Refer to pages 44 to 63 for notes to the financial statements.

Cash flows from operating activities

Co-operative 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 benefits and claims incurred for insurance contracts, which are classified under operating activities. Additionally, operating cash flows include interest received of £17.1m (2014: £22.3m).

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

Statement of changes in equity

For the year ended 31 December 2015

All amounts are stated in £m unless otherwise indicated

	Share capital	Available for sale reserve	Capital reserve	Retained earnings	Total
2015					
Balance at the beginning of the financial year	**268.0**	**13.3**	**57.1**	**43.0**	**381.4**
Total comprehensive income/(expense) for the financial year:					
Loss for the year	**-**	**-**	**-**	**(51.8)**	**(51.8)**
Other comprehensive income	**-**	**(7.0)**	**-**	**-**	**(7.0)**
Transactions with owners:					
Issuance of new share capital	**-**	**-**	**-**	**-**	**-**
Balance at the end of the financial year	**268.0**	**6.3**	**57.1**	**(8.8)**	**322.6**
2014					
Balance at the beginning of the financial year	183.0	(7.1)	57.1	49.9	282.9
Total comprehensive (expense)/income for the financial year:					
Loss for the year	-	-	-	(6.9)	(6.9)
Other comprehensive income	-	20.4	-	-	20.4
Transactions with owners:					
Issuance of new share capital	85.0	-	-	-	85.0
Balance at the end of the financial year	268.0	13.3	57.1	43.0	381.4

The accounting policies and notes on pages 24 to 63 form part of these financial statements

Basis of preparation and significant accounting policies

For the year ended 31 December 2015

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 directors on 6 April 2016.

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-operative 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 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-operative 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 2015.

Standards and interpretations issued and effective

In preparing these annual report and accounts, Co-operative Insurance has not adopted any new pronouncement during the year that had any impact on the financial statements.

Standards and interpretations issued but not yet effective

- IFRS 9 (Financial Instruments)

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

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

- IFRS 15 (Revenue from Contracts with Customers)

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

  It becomes effective for accounting periods beginning on or after 1 January 2018, with early adoption permitted once endorsed by the EU. The impact of IFRS 15 is likely to be immaterial to Co-operative Insurance.

Other standards and interpretations have been issued but these are not considered to be relevant to Co-operative Insurance operations.

Going concern

Co-operative Insurance business activities, together with its financial position and the factors likely to affect its future development and performance are set out in the strategic report and the Directors' report. In addition, the risk management section on pages 31 to 41 includes Co-operative Insurance objectives, policies and processes for managing its risk, including its exposure to risk. The capital management section on page 42 provides information on Co-operative Insurance capital policies and capital resources. Details of financial instruments are disclosed in note 28.

The assessment of the going concern basis of preparation has been subject to a thorough process involving analysis and discussion by management, the Board Audit Committee and the Board, in line with the governance processes discussed in the risk management sections of these accounts. The analysis covered forecast information for the strategic planning period, stress tests and reverse stress tests, as well as management actions and focused on the profitability, liquidity and capital requirements of Co-operative Insurance.

Co-operative Insurance reported a statutory loss after taxation for the year of £51.8m. Through 2016 and 2017 the business forecasts a continued loss making result as significant costs in relation to the Transformation Programme are incurred. To finance the Programme, £70.0m capital was raised in 2015.

As can be seen in note 13, Co-operative Insurance has significant deposits with credit institutions of £199.1m, considerably in excess of the Board's target minimum liquidity requirement.

There are a number of regulatory capital requirements with which Co-operative Insurance must comply that are explained on pages 42 and 43. Total regulatory capital was £358.4m at 31 December 2015, which is in excess of all externally imposed regulatory capital requirements. Current forecasts show that under the Solvency II regime that came into effect from 1 January 2016, Co-operative Insurance's available capital will remain above regulatory capital requirements for the foreseeable future.

Going concern (continued)

While Co-operative Insurance has maintained capital above all its regulatory requirements throughout 2015, Co-operative Insurance did fall below its 1-in-6 year risk appetite buffer capital requirement until the £70m debt raise in May 2015. In assessing capital resilience for the period under review, Co-operative Insurance has considered a number of stress and reverse stress tests on capital both in the context of restoring capital above risk appetite and maintaining capital above all regulatory requirements. In considering these scenarios, management has identified potential actions that could be taken to improve the capital position if overall solvency is threatened.

Co-operative Insurance has identified several areas of risk as key to its going concern status:

Transformation Risk

The key risk to the Transformation Programme is the risk that poor governance or failure to deliver leads to the business being unable to re-platform, resulting in the need for an alternative strategy to be deployed with cost, time and business sustainability impacts. Transformation risk is heightened due to a number of key concerns relating to the various releases and full migration. This could impact the timing of the transition from the current inflexible, unstable and expensive legacy business platform which inhibits Co-operative Insurance's ability to compete in the UK general insurance market and to realise its strategic objectives. Management are planning to address the major challenges with significant platform changes by tightly managing scope, securing external support and expertise, and using proven UK compliant solutions.

Regulatory Risk

Regulatory risk refers to failure of Co-operative Insurance to implement and comply with UK & EU regulation. A designated Solvency II programme and plans are now live and being managed in compliance with the new regime which came into force on 1 January 2016. Forecast solvency projections show that Co-operative Insurance maintains its capital buffer when the new regulation comes into force (this makes allowance for a capital add-on calculated by Co-operative Insurance and approved by the Prudential Regulatory Authority (PRA)). Despite the size of the add-on, it would not affect Co-operative Insurance's going concern status.

Group Risk

During 2016 there are a significant number of Strategic projects/programmes to drive Group Rebuild and complete remediation activity. These include Bank Separation, IT and Building remediation, Meaningful Membership, Group Re-brand and the pension scheme arrangements. For these risks the Directors do not have direct control of all possible mitigating actions.

Although the Directors do not have direct control of all possible mitigating actions with regard to the pension scheme, as disclosed on page 59, Co-operative Insurance has an agreement with CFSMS to pay an appropriate share of the pension contributions relating to staff employed by CFSMS that are assigned to work for Co-operative Insurance. As a consequence, Co-operative Insurance is exposed to potential future increases in contributions, deficit funding and section 75 debts. Management is working closely with the Co-operative Group Limited (Group), who manage this pension risk. At present Co-operative Insurance is not aware of any actions being undertaken by the parent that would have a material adverse impact on Co-operative Insurance.

After consideration of the above, and making relevant enquiries of the Group, the Directors are satisfied that Co-operative Insurance has the resources to continue to meet its liabilities as they fall due and has therefore continued to adopt the going concern basis in preparing the annual report and accounts.

Use of estimates and judgments

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

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

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

Information about estimation uncertainty, that has the most significant effect on the amounts recognised in the annual report and accounts, relates to the determination of the ultimate liability arising from claims made under insurance contracts. Details of the methodology, key assumptions and sensitivities are provided in note 20 (b). Additionally further reference is made within the risk management section in relation to insurance risk on pages 35 and 36.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these annual report and accounts. The accounting policies are split between non-insurance specific accounting policies and insurance accounting policies. The insurance accounting policies are detailed in accounting policy 15 on pages 29 and 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 cost incurred to acquire and bring the software to use.

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

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

(3) Financial instruments

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

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

ii) Derecognition of financial assets and financial liabilities

Financial assets are derecognised when they are qualifying transfers and:

- the rights to receive cash flows from the assets have ceased; or
- Co-operative 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-operative 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-operative 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 note 9 (page 28) for further details. Where there is evidence of impairment, the extent of any impairment loss is recognised in the income statement. For further information refer to note 3(vii) on page 27. 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.

(3) Financial instruments (continued)

iv) Loans and receivables

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

v) Financial investments at fair value through income or expense

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

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

vi) Financial liabilities

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

Borrowed Funds

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

vii) Impairment of financial assets

Assessment

At the balance sheet date, Co-operative 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.

(3) Financial instruments (continued)

viii) Gains less losses arising from financial assets

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

(4) Sale and repurchase arrangements

Co-operative Insurance participates in reverse sale and repurchase transactions whereby Co-operative 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 balance sheet as a result of Co-operative Insurance documented risk management policy.

(5) Cash and cash equivalents

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

(6) Offsetting

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

(7) Impairment of non-financial assets

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

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

(8) Provisions

A provision is recognised in the balance sheet if Co-operative 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-operative Insurance accounting policy in respect of revenue arising from insurance contracts is set out within the insurance specific accounting policy (15i) on page 29.

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

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

Fee and commission income

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

(10) Fee and commission expenses

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

(11) Income tax

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

Current tax

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

Deferred tax

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

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

(12) Foreign currencies

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

(13) Profit based payments to members of The Co-operative Group

Members of the Group may receive a dividend based on their transactions with the Group and its subsidiaries, including Co-operative Insurance. Once these profit based payments are approved by The Co-operative Group Limited, Co-operative Insurance is recharged an amount which reflects its eligible products' contribution to the overall Co-operative Group member dividend. There were no such payments in the year (2014: £nil).

(14) Dividends to shareholders

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

(15) Insurance accounting policies

Contracts under which Co-operative 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-operative 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 necessary adjustments to amounts reported in prior periods.

Gross written premiums:

- are stated gross of commission and exclude any taxes or levies based on premiums; and
- include an estimate of the premiums receivable on those contracts which incepted prior to the year end but which have not been notified by the balance sheet date ('pipeline premium'). When calculating pipeline premiums it is assumed, where appropriate, that options to renew contracts automatically will be exercised.

Gross written premium (whether paid in advance or by instalments) is earned evenly over the period of the contract (usually twelve months). The treatment of outward reinsurance premiums is similar to gross premiums written.

ii) Unearned premium provision

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

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

(15) Insurance accounting policies (continued)

iii) Claims incurred

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

iv) Claims outstanding

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

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

Aggregate claims provisions, which include attributable claims handling expenses, are set at a level such that no adverse 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.

For statutory accounts the outstanding reserves are discounted in respect of periodical payments and a portion of liability type claims from the electric industry ('EIROS') for which separate assets are held of appropriate term and nature.

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 balance sheet.

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

(16) Transformation Costs

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

Costs that are capitalised would be held within the asset section of the balance sheet and be amortised in accordance with Co-operative Insurance stated policies.

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

Risk Management

For the year ended 31 December 2015
All amounts are stated in £m unless otherwise indicated

Co-operative 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-operative Insurance manages them.

Developments during 2015

Co-operative Insurance has a stand-alone risk management framework which was comprehensively redesigned in 2013. During 2015, a number of enhancements to the framework have taken place:

- Creation of a Governance Map creating clear accountability;
- Established a Co-operative Insurance Nomination Committee and Remuneration Committee;
- Suite of risk policies and control standards reviewed and updated as part of a business as usual process;
- Refined risk reporting to the Board, Board Risk Committee and Executive Risk Committee;
- Strengthened stand-alone second line of defence function win Risk;
- Enhancements and further embedding of the risk event reporting and risk acceptance process; and
- Alignment of governance and risk control process, with enhanced Risk and Control Self-Assessment process rolled out

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

Our approach to risk management

Co-operative Insurance operates a three lines of defence governance model to ensure appropriate responsibility and accountability is allocated to the identification, measurement, management, monitoring and reporting of risks.

Business management is the first line of defence. It is responsible for implementing and operating processes to identify, measure, manage, monitor and report risks. This includes those risks deriving from the development of new products, processes or other business change. It manages the risks that reside within the business areas on a day-to-day basis and implements effective monitoring and control processes to ensure that the business risk profile is understood and maintained within the Board's defined risk appetite.

The Chief Risk Officer and Risk function are the second line of defence. They own the risk management framework, oversee and challenge its implementation and operation by the first line of defence, and consider current and emerging risks across Co-operative Insurance. They also provide review and challenge of the risk and controls and oversee appropriate escalation of breaches, mitigating actions and reporting to the Executive Risk Committee, Board Risk Committee and the Board.

The Head of Internal audit leads the third line of defence. They independently challenge the overall management of the framework and provide assurance to the Board Audit Committee and senior management on the adequacy of both the first and second lines. The Chair of the Board Audit Committee oversees the internal audit function and risk-based audit plan. Co-operative Insurance has contracts in place with external consultants to provide internal audit capability.

Risk assessment of Co-operative Insurance

Co-operative Insurance has undertaken a robust assessment of the principal risks facing the company. It has developed its Own Risk and Solvency Assessment (ORSA) process, which is an integral part in developing its Strategic Plan. One of the outputs of the ORSA process is the ORSA Report. This report provides a comprehensive picture of the risks that Co-operative Insurance is exposed to or could face in the future. These risks are described in detail within the report and summarised on page 34.

The prospects of Co-operative Insurance as at 31 December 2015 have primarily been assessed using the latest information (the 2015 year end position) and the 2016 - 2020 Strategic Plan, which was approved by the Co-operative Insurance Board in December 2015. Based on this information, Co-operative Insurance has adequate capital and liquidity to continue its operation, under both old and new regulatory regimes. Indicators which could impact upon its operations have been considered and appropriate management action has been taken where necessary to mitigate issues as identified.

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

Risk management structure

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

Co-operative Insurance has developed and implemented a governance and organisation structure, which supports the Board. The Board has established risk and audit sub-committees and senior management committees to:

- oversee the risk management process;
- identify the key risks facing the business; and
- assess the effectiveness of planned management actions.

Specific Board authority has been delegated to the Board sub-committees and the Chief Executive Officer (CEO) who has, in turn, delegated elements of these discretions to appropriate members of the senior management team.

Co-operative Insurance has produced a Governance Map which sets out the accountabilities delegated by the CEO to the Executive Team members which are reflected within the individual job descriptions of the Executive Team members. Those with delegated authority consider these in conjunction with their responsibilities as Approved Persons and their associated functional accountabilities.

Risk management committees

Co-operative Insurance Board (Board)

The responsibilities of the Board include:

- Setting the overall Risk Strategy;
- Approving the design and implementation of risk management approaches, including the Risk Management Framework Policy and the Risk Appetite Statements and metrics that underpin them;
- Review and approval of Co-operative Insurance Own Risk Solvency Assessment (ORSA) basis assumptions, policy and results;
- Delegating authority for oversight of the risk management framework, systems and high-level limits to the Board Risk Committee;
- Delegating authority for cascading the setting and approval of the more granular risk limits and tolerances to the CEO;
- Using the output of the semi-annual certification process, to approve the effectiveness of the Risk Management Framework with support from internal audit through their risk-based review programme; and
- Reviewing and challenging Board Risk Committee reports on the effectiveness of the risk management framework and systems.

Co-operative Insurance Board Risk Committee (BRC)

BRC responsibilities include:

- Providing oversight and advice to the Board on current and potential risks and the overall risk framework including risk appetite, risk tolerance and risk management strategies;
- Reviewing and challenging the design of the Risk Management Framework, Risk Appetite limits and tolerances and recommending to the Board for approval;
- Reviewing and challenging the implementation of the Risk Management Framework through the semi-annual certification process and reviewing the quality and effectiveness of the Risk Management Framework, systems and function;
- Reviewing and challenging internal controls and process of risk management including the coverage of the risk taxonomy;
- Monitoring the organisation's performance and compliance against high-level risk appetite limits and tolerances;
- In co-operation with the Board Audit Committee, monitoring identified risk control failings and weaknesses and management actions taken to resolve them;
- Reporting on the effectiveness of the Risk Management Framework and systems to the Board; and
- Advise the Remuneration Committee the extent of incentive awards or payments under incentive schemes due to Executives including the need for any risk adjustment.

Co-operative Insurance Board Transformation Committee (BTC)

BTC responsibilities include:

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

Co-operative Insurance Board Audit Committee (BAC)

BAC responsibilities include:

- Review and oversight of financial statements and annual reports before submission to the Board;
- Assisting the Board in carrying out its responsibilities relating to internal control, including control breaches and remediation;
- Exercising oversight of identified risk control framework failings and weaknesses as well as management actions taken to resolve them; and
- Oversight of internal and external assurance and audit.

Co-operative Insurance Nomination Committee (Nom Co) (established 2015)

Nom Co. responsibilities include:

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

Co-operative Insurance Remuneration Committee (Rem Co) (established 2015)

Rem Co. responsibilities include:

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

Co-operative Insurance Executive Committee (ExCo)
The ExCo responsibilities include:
- Overseeing the establishment and maintenance of appropriate risk management systems and controls in line with the Board agreed Risk Management Framework;
- Supporting the CEO in developing, reviewing and approving detailed risk appetite limits and tolerances as delegated by the Board; and
- Ensuring the implementation of the risk strategy set by the Board so as to deliver an effective risk management environment for Co-operative Insurance.

Co-operative Insurance Transformation Steering Executive Committee (TSEC)
The TSEC responsibilities include:
- Overseeing the delivery of the Co-operative Insurance Transformation and Business Critical Programmes, reviewing and approving new initiatives;
- Recommending approval for changes to timescales, costs, quality, costs, scope, risks and benefits; including material drawdown requests;
- Proactively managing risks and issues, highlighting thematic hotspots and initiating mitigating action plans;
- Overseeing the overall strategic investment budget:
- Overseeing the efficient and effective use of GI resources, by monitoring demand to ensure successful delivery of the Roadmap;
- Oversight of the Co-operative Insurance Benefits Realisation tracking plans; and
- Ensuring design decisions consider the implications on both the current Co-operative Insurance operating model and the new operating model.

Co-operative Insurance Executive Risk Committee (ERC)
The ERC responsibilities include:
- Driving the detailed implementation of the Co-operative Insurance Risk Management Framework approved by the Board;
- Providing a mechanism for ensuring that the Co-operative Insurance-wide risk and capital management requirements, developments, and processes are in place;
- Supporting the CEO in developing the Risk Strategy, Risk Management Framework, and Risk Appetite Statement and recommending to the Board Risk Committee for review, challenge and recommendation to the Board for approval;
- Supporting the CEO in approving Risk Policies, proposing Risk Appetite limits and tolerances to Board Risk Committee for review, challenge and recommendation to the Board for approval;
- Reviewing approaches to stress testing, risk management reporting and governance, and referring them to the Board Risk Committee for review, challenge and recommendation for approval by the Board;
- Supporting the CEO in semi-annually reviewing the effectiveness of the Risk Management Framework, systems and function and providing a report to the Board Risk Committee;
- On a periodic basis, assessing the performance of the Risk Management Framework; and
- Monitoring the business's risk profile against the agreed limits and tolerances and reporting on these to the Board Risk Committee.

Senior Management Committees
Co-operative 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 and Operations;
- Conduct Risk Steering;
- Commercial;
- Capital, Liquidity, Investment and Pension;
- Reserving;
- Operational Risk;
- Data Governance; and
- Model Governance.

All amounts are stated in £m unless otherwise indicated

Principal risks

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

Risk Type	Definition	Page
Strategic and business risk*	The risk to earnings and capital that may arise as a result of strategic/management decisions or business choices or lack of responsiveness to changes in the business environment Note: this includes any Transformation Risk	34
Transformation risk*	The risk that failure of programme leads to the business failing to re-platform, leading to the need for an alternative strategy to be deployed with cost, time and business sustainability impacts	34
Reputation risk*	The risk associated with an issue which could in some way be damaging to the brand of the organisation among all or any stakeholders	34
Conduct risk*	The risk that Co-operative Insurance's behaviours, offerings or interactions will result in unfair outcomes for customers	35
Regulatory risk*	The risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK and EU regulatory requirements	35
Insurance risk	The inherent uncertainties as to the occurrence, amount and timing of insurance liabilities	35
Market risk	The risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market risk drivers e.g. interest rates, market prices of assets and liabilities	36
Operational risk*	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events	37
People risk*	The risk associated with the recruitment, employment and management of individuals within Co-operative Insurance	38
Liquidity risk	The current and prospective risk to earnings or capital arising from Co-operative Insurance's inability to meet its obligations when they come due without incurring unacceptable losses	38
Credit risk	The risk to earnings and capital arising from a debtor's failure to meet their legal and contractual obligations	39
Pension risk*	The risk to capital and company funds from exposure to scheme liabilities (to the extent liabilities are not met by scheme assets) and risks inherent in the valuation of scheme liabilities and assets	41
Group risk*	The risks that arise through being part of the Co-operative Group	41

For each of the principal risks, Co-operative Insurance appoints a Risk Framework Owner (RFO) and a risk framework must be defined and documented. The framework includes Board approved risk policies and risk appetite statements with underpinning metrics. The metrics have approved limits within which business operations are to be conducted, along with thresholds to give early warning of emerging issues.

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

Strategic and business risks (unaudited)

Strategic and business risks to earnings and capital arise as a result of strategic/management decisions or business choices or lack of responsiveness to changes in the business environment. Specific strategic and business risks, and management actions, are regularly reported and reviewed by the ERC and Board. Co-operative Insurance's objective in managing these risks is to maintain a sufficient capital buffer in excess of minimum regulatory capital requirements to cover projected risks and maintain market confidence, and obtain a sufficient and sustainable return on equity. The Board have defined detailed metrics and limits underpinning these objectives, which are measured, monitored and reported regularly to the ERC and Board.

During 2015, the strategic and business risk profile materially improved. The Co-operative Insurance concluded the issuance of £70m of lower Tier two public debt thereby ensuring that the capital position was within the Board approved risk appetite. The outlook on Strategic and Business Risk profile continues to improve as the business performed in line with the annual plan against all key metrics.

Transformation risk (unaudited)

During 2015, Co-operative Insurance signed a Master Services Agreement with IBM to implement and provide as a managed service an integrated IT platform for the whole business. All 2015 major milestones of the joint plan have been delivered and the programme is entering testing and delivery phase. Transforming General Insurance is one of the 'Winning 10' activities identified within the Co-operative Group Rebuild Programme with dependences being managed across the activities being undertaken.

Reputational risk (unaudited)

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

As part of the assessment and control of this risk, business performance and risk profile across all risk types are closely monitored and reviewed. Co-operative 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 Operational Risk Committee, ERC and Board.

Throughout 2015, the reputational risk position has continued to improve. There has been reduced Group media coverage with little negative press coverage which has supported the reputation of the Group and has helped to improve reputational risk position. There remains contagion risk from the Co-operative Bank, although there was little impact following recent Bank related announcements.

Reputational risk (unaudited) (continued)

The implementation of a social media strategy delivered several positive new stories during the year. This is reflected in recent improved Brand perception reports.

Conduct risk (unaudited)

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

Co-operative Insurance’s objective is to conduct business in a way that results in 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 ongoing oversight and monitoring from risk functions. These established systems and controls mitigate and prevent emerging conduct risk.

During 2015, progress was made in implementing the approved Conduct Risk strategy. New reporting was developed to improve oversight of customer outcomes and conduct risk training provided to over 500 customer facing colleagues. A new Product Governance Forum was established to oversee and govern the product throughout its lifecycle. Monthly executive Conduct Risk Steering Committee reviews the identification, measurement, management, monitoring and reporting of conduct risks improve customer outcome measures are being developed for reporting to Executive and Board.

Regulatory risk (unaudited)

Regulatory risk is the risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK and EU regulatory requirements, including compliance with the Consumer Credit Act 1974. Co-operative Insurance objective is to maintain a robust process to ensure that all regulatory expectations and requirements are met within agreed or mandated timeframes, by promoting and embedding a compliance culture and developing positive regulatory relationships.

Regulatory risks are reported through management structures and regularly monitored and reported to the ERC and Board. The Board and subcommittee structure governance documentation was enhanced in preparation for the Senior Insurance Managers Regime and Solvency II with new Non-Executive Directors appointed to increase Board capability for the new strategy and transformation.

Insurance risk

Insurance risk comprises risks that arise in respect of claims that have already occurred and for which reserves are already held (reserving risk) and of claims that are yet to occur (underwriting risk). Underwriting risk includes risks from attritional claims and from natural or man-made catastrophe events.

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

Principal 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.

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

At the balance sheet date there were no significant concentrations of insurance risk. Co-operative Insurance manages insurance risk in accordance with its overall aims to achieve acceptable profits and return on equity. This is achieved by:

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

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

The overriding objective in claims handling is to ensure all claims are properly scrutinised and paid where they fall within the terms and conditions of the policy. The proper scrutiny of claims is facilitated by the use of various technical aids such as weather validation and fraud databases, and the use of claims specialists. The basis for assessing claims provisions is set out in note 20 (page 53).

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-operative 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-operative Insurance manage this risk through the Reserving Committee which supports the Finance Director in their responsibility to formally reviews claims reserves on a quarterly basis.

All amounts are stated in £m unless otherwise indicated

Insurance risk (continued)

Co-operative 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 determined by management, using Co-operative Insurance's capital model to inform decision making. In 2015 Co-operative Insurance had three main reinsurance programmes in place: catastrophe excess of loss cover, motor excess of loss cover and cover to protect against a significant deterioration in prior years' reserves. Other reinsurance arrangements include the 100% reinsurance of the commercial insurance business being written by Co-operative Insurance on page 35.

Insurance risk sensitivity analysis can be found in Note 20 b iii on page 54.

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-operative 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-operative Insurance is also exposed to market interest-rates through the discounted present value placed upon future claims. All future claims are discounted for economic assessment purposes for economic capital. However, IFRS short term insurance reserves (normally less than five years) are not directly affected by market interest-rates as they are undiscounted.

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

In summary, the principal market risks that Co-operative Insurance is exposed to are:

- changes in interest-rates, which impact both asset and liability values, and investment income; and
- movements in credit-spreads which impact the market value of corporate bonds.

Objective and strategy

Co-operative 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-operative Insurance determines its strategic asset allocation through considering the risk/reward trade off and the impact upon capital adequacy and solvency of the overall company, which relies on outputs from Co-operative Insurance's capital model. Co-operative Insurance's investments are managed by Royal London Investment Management (RLAM) with whom Co-operative Insurance have an agreed investment mandate with limits for exposure by credit-rating, maximum terms and maximum exposure to individual counterparties. The Capital, Liquidity, Investment and Pension Committee supports the Finance Director to oversee RLAM, monitor and manage asset exposures against the strategic asset allocation and approved investment limits.

Co-operative Insurance manages credit-spread and default risks from corporate bonds through the limits for exposure to credit-ratings and individual counterparties. Other risk mitigation techniques employed to manage exposure to counterparty default include transacting only through a diversified range of authorised counterparties and the requirement for certain transactions (including cash, investment and trading in futures, stock lending and gilt repo transactions) to be collateralised on a daily basis. The Capital, Liquidity, Investment and Pension Committee supports the Chief Financial Officer in overseeing the monitoring and management of these risks and exposures against limits. The investment mandate setting limits of investments types and duration is assessed using the capital model and approved by Board. During 2015 the mandate was set to reduce the market risk exposure during the transformation of Co-operative Insurance.

Interest-rate risk is managed through investing in fixed interest securities with a similar duration profile to the liabilities under the general insurance contracts. Co-operative Insurance matches the average duration of assets and liabilities in this portfolio by estimating their mean duration. The mean duration of liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from insurance contracts in force at the balance sheet date (both incurred claims and future claims arising from the unexpired risks at the balance sheet date). Index-linked investments and other specific debt securities are used to match periodical payment liabilities and provisions relating to exposure within the electric industry ('EIROS' claims) by amount and duration. In order to do this, an expert opinion on life expectancy is used along with an expectation of long term average earnings. Mean durations are:

	2015	2014
Insurance liabilities	**2.84 years**	2.84 years
Financial assets	**1.83 years**	2.35 years

Market risk (continued)
Objective and strategy (continued)

	Amount (£m)	Duration
Periodical payments		
Insurance liabilities	**22.1**	**18.4**
Financial assets	**36.0**	**15.9**

EIROS claims	**Amount (£m)**	**Duration**
Insurance liabilities	**2.2**	**10**
Financial assets	**2.5**	**9.6**

Sensitivity analysis

Currently, the most significant aspect of market risk to which Co-operative 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-operative Insurance's internal economic assessment of solvency, including the Individual Capital Assessment (ICA). As Co-operative 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 carrying value of Co-operative Insurance's assets at the end of the financial year by £12.9m (2014: £22.9m). This would reduce the value placed upon these assets in Co-operative Insurance's internal economic assessment of solvency, including the ICA, by the same amount. On an IFRS basis it would result in a reduction in equity of £10.7m net of tax (2014: £18.0m) The impact of a decrease of 100 basis points in credit-spreads would have similar but opposite effects.

The method used for this calculation increases the implied redemption yield by 100 basis points and uses this modified yield to calculate the revised market value of each bond in the portfolio. The calculation assumes that a change in credit-spreads would have an immediate and equal impact at all points on the yield curve and upon all corporate bonds regardless of their credit-rating. The probability of this credit-spread change over one year is assessed as 10.8% (2014: 24%) using the Co-operative Insurance capital model.

Operational risk (unaudited)

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events over which Co-operative Insurance has limited controls. Co-operative 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, technology and due to external events.

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

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

Operational risks are identified, managed and mitigated through ongoing risk management practices including risk assessments, formal control procedures and contingency planning. Operational risks and key controls are regularly reviewed by the Operational Risk Committee. Significant operational risks are reported to the ERC and Board.

Following the legal separation from The Co-operative Bank, a programme continues to separate shared IT systems. This work increases the complexity in managing the business through to final physical separation in 2016. A separate work area recovery has been developed with improved disaster recovery capability for key systems due to complete in Q1 2016. In addition, desktop, network and telephony services will continue to be sourced from within Group, alongside the IBM led IT systems replacement. All these developments raise the risk arising from change to the existing systems and operations. The nature of the contract with IBM for such a major development requires investment and financial commitments which will enable significant improved business capability and efficiency. There is a risk that the development does not deliver and stress testing of appropriate contingency plans to ensure sufficient capital is available to manage the business in such extreme circumstances has been undertaken.

Co-operative Insurance has a corporate insurance programme to transfer specific risks to insurers as part of its risk management approach which includes employer's liability.

All amounts are stated in £m unless otherwise indicated

People risk (unaudited)

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

During 2015, Group-wide changes to grading, terms & conditions and the pensions closure were communicated along with changes in roles as a result of the transformation programme. In addition, an improved remuneration offering following market benchmarking has reduced attrition within Operations. During this period of significant transformation there is an increased risk of attracting and retaining staff, with the key skills critical to deliver the programme.

Liquidity risk

Liquidity risk is the current and prospective risk to earnings or capital arising from an inability to meet obligations when they come due without incurring unacceptable losses. Co-operative Insurance's objective is to meet all policyholder and other funding obligations as they fall due primarily through the use of cash and highly liquid UK government and corporate bonds.

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

The latest model assesses the ultimate cost of a 1-in-100 year UK windstorm as £105.6m (2014: £136.0m), giving a minimum requirement for £21.1m (2014: £27.2m) of liquid assets against actual liquid assets of £734.0m (2014: £673.9m).

Liquid assets are considered to be:

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

The level of cash and other assets held are monitored regularly and managed through the Capital, Liquidity, Investment and Pension Committee, with oversight by the ERC and Board. This includes monthly reporting of liquid assets against risk appetite limits including forecasts for 2016 to ensure cost of transformation is also available.

All amounts are stated in £m unless otherwise indicated

Liquidity risk (continued)

The following table indicates the time profile of undiscounted cash flows arising from financial liabilities (based upon contractual maturity), and insurance liabilities (based upon estimated timing of amounts recognised in the balance sheet). Included in the analysis of insurance contract liabilities below is £43.5m (2014: £47.3m) of discounted reserves relating to Periodic Payment Orders and EIROS. Further details are included in note 20.

	Carrying value	**Gross nominal out flow**	**Up to 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**
As at 31 December 2015								
Insurance contract liabilities	**746.2**	**746.2**	**433.2**	**115.2**	**64.1**	**37.8**	**22.7**	**73.2**
Financial liabilities at amortised cost:								
Subordinated debt	**67.7**	**149.8**	**8.4**	**8.4**	**8.4**	**8.4**	**8.4**	**107.8**
Reinsurance liabilities	**7.4**	**7.4**	**7.4**	**-**	**-**	**-**	**-**	**-**
Insurance and other payables	**67.1**	**67.1**	**67.1**	**-**	**-**	**-**	**-**	**-**
Cash and cash equivalents	**3.6**	**3.6**	**3.6**	**-**	**-**	**-**	**-**	**-**
	892.0	**974.1**	**519.7**	**123.6**	**72.5**	**46.2**	**31.1**	**181.0**
Other liabilities	**5.0**							
Total recognised liabilities	**897.0**							

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

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-operative 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-operative Insurance's principal credit risk exposures are as follows:

- default or delay in payments due upon corporate bonds or cash;
- reinsurance counterparties failing to meet financial obligations or entering into restructuring arrangements that may adversely affect reinsurance recoveries; and
- default or delay of repayment of loans and receivables.

Co-operative Insurance manages credit risks associated with cash and corporate bonds as part of market risk. See Market Risk section above for details.

Where reinsurance is used to manage insurance risk, there is a risk that the reinsurer fails to meet its obligations in the event of a claim. Co-operative 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 reinsurer credit quality, watch lists are maintained and actively managed.

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-operative Insurance credit risk policy.

All amounts are stated in £m unless otherwise indicated

Credit risk (continued)

The table below provides an analysis at the balance sheet date of the credit rating of those assets subject to credit risk. Co-operative Insurance policy for making provisions for possible impairment is described within the accounting policy section on pages 27. Credit ratings are determined by taking an average of ratings provided by Moody's Investors Service, Standard & Poor's and Fitch.

	AAA	**AA**	**A**	**BBB and below**	**Not rated**	**Total**
As at 31 December 2015						
Financial assets at fair value through income or expense:						
Deposits with approved credit institutions (fixed rate)	**-**	**-**	**199.1**	**-**	**-**	**199.1**
Available for sale assets:						
Listed debt (fixed rate)	**93.7**	**321.0**	**147.9**	**-**	**-**	**562.6**
Listed debt (variable rate)	**10.1**	**17.2**	**85.8**	**16.3**	**-**	**129.4**
Reinsurance assets		**29.3**	**36.9**		**2.3**	**68.5**
Insurance receivables and other assets	**2.1**	**2.4**	**3.8**	**0.1**	**183.9**	**192.3**
	105.9	**369.9**	**473.5**	**16.4**	**186.2**	**1,151.9**
Assets not subject to credit risk						**67.7**
						1,219.6

	AAA	AA	A	BBB and below	Not rated	Total
As at 31 December 2014						
Financial assets at fair value through income or expense:						
Deposits with approved credit institutions (fixed rate)	-	156.3	-	-	-	156.3
Available for sale assets:						
Listed debt (fixed rate)	92.8	227.9	232.6	49.6	-	602.9
Listed debt (variable rate)	7.4	17.8	91.3	45.2	-	161.7
Reinsurance assets	-	31.9	37.0	-	3.0	71.9
Insurance receivables and other assets	1.6	2.0	5.1	1.5	127.2	137.4
	101.8	435.9	366.0	96.3	130.2	1,130.2
Assets not subject to credit risk						43.8
						1,174.0

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 £191.0m (2014: £143.5m) is held against short term deposits which have been placed into a reverse repo transaction of £199.1m as at 31 December 2015 (2014: £147.0m). These short term deposits sit with approved credit institutions within financial investments at fair value through income or expense on the balance sheet.

Eurozone risk

Co-operative Insurance has no direct exposure to the sovereign debt of European countries. However, management are considering the uncertainties that may arise following the referendum on the United Kingdom's membership of the European Union on 23 June 2016. Indirect exposure is managed as knowledge of an institution's direct exposure is made public. At this point, if the exposure is considered to be in excess of the risk appetite, action will be taken to reduce the risk through the sale of the relevant holdings. Indirect exposure to European countries is also considered as part of the reinsurance placement. The asset profile of the prospective companies is analysed and those which are over exposed are not included in placement of the programme.

All amounts are stated in £m unless otherwise indicated

Credit risk (continued)
Eurozone risk (continued)

The following table shows exposure to European countries arising from corporate bonds. Co-operative Insurance has no exposures to European countries as a result of repo arrangements.

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

	Up to 1 year	1 to 5 years	5 to 10 years	Total
As at 31 December 2014				
France	-	7.1	-	7.1
Germany	-	30.1	-	30.1
Netherlands	9.1	38.6	-	47.7
Spain	-	21.8	-	21.8
Sweden	-	70.1	-	70.1
	9.1	167.7	0.0	176.8

Pension risk (unaudited)

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

While Co-operative Insurance is not a participating employer, it has an agreement to pay pension contributions relating to staff employed by CFSMS that are assigned to work for Co-operative Insurance. This means that Co-operative Insurance is exposed to pension risk through the Co-operative Group pension scheme (PACE), a defined benefit scheme. The PACE trustee, in consultation with the Group, is responsible for the risk management arrangements for PACE, agreeing suitable contribution rates, investment strategy and for taking professional advice as appropriate. The scheme is managed at The Co-operative Group level.

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

During 2015, following Group-wide consultation, the PACE Defined Benefit scheme was closed. This resulted in ending any future accruals and reducing the risk in the longer term.

Group risk (unaudited)

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

During 2015, ownership of Co-operative Insurance transferred from the Co-operative Banking Group to the Co-operative Group, recognising that the Insurance business is at the centre of the Group Strategy and under Solvency II categorising Group as a 'Mixed-activity Insurance Holding Company'. Changes to the Group target operating model (TOM) and demands from the Group Rebuild programmes have required Co-operative Insurance resources and dependencies incorporated within plans.

Capital Management

For the year ended 31 December 2015
All amounts are stated in £m unless otherwise indicated

Objectives when managing capital

Co-operative Insurances strategy in respect of capital management is to ensure that the following objectives are met:

- it has sufficient capital to meet all regulatory requirements;
- it has sufficient capital to support all the risks in the business, over the internally agreed time horizon and to the internally agreed level of confidence, thus ensuring that policyholders are protected and also that the Board's risk appetite is met; and
- subject to the above objectives being met, it makes the required return on equity.

Required capital

Co-operative Insurance is required to hold regulatory capital for its general insurance business in compliance with the rules issued by the Prudential Regulation Authority (PRA).

(a) Regulatory required capital

As at 31 December 2015, Co-operative Insurance is required to hold capital at the greatest of three measures, namely the Individual Capital Assessment (ICA), the Individual Capital Guidance (ICG) and the Minimum Capital Requirement (MCR). Each of these measures is further described below. Note that this regime will be replaced by Solvency II on 1 January 2016, see section (d) below;

i) ICA: The ICA is an economic risk-based assessment of Co-operative Insurance's capital requirements using Co-operative Insurances internal capital model. Second Line Risk has responsibility for the overall design and governance of the capital model, which is developed and operated within the actuarial team. Capital model methodology and results are reviewed and approved by the Model Governance Committee, ERC and Board. Outputs from the capital model are used in areas such as investment and reinsurance decisions, determining the risk in the business plans with regard to risk appetite and return on capital in pricing.

ii) ICG: The Prudential Regulation Authority (PRA) reviews the ICA calculation periodically to assess whether it believes the models and controls surrounding the models are adequate and, if it deems it necessary, an 'add-on' is applied to reflect risks that were inadequately captured. The total ICA plus 'add-on' is known as the ICG. In September 2014, the PRA provided Co-operative Insurance with an updated ICG, as a result of Co-operative Insurance's ICA submission in May 2014.

iii) MCR: In accordance with the General Prudential Sourcebook (GENPRU) 2.1, Co-operative Insurance must hold capital resources equal to or in excess of its capital resources requirement. For a company writing general insurance this is termed the MCR and is defined as being the higher of a base capital resource requirement and the general insurance capital requirement (a formulaic hurdle where the calculation is based upon premiums, claims or the brought forward requirement).

Capital requirements under the ICA and ICG are significantly in excess of the published MCR as they are set at a higher confidence level, and also reflect the specific risk-profile of Co-operative Insurance, including risks associated with PACE.

(b) Internal required capital

Co-operative Insurance Board sets capital risk appetite, which defines how much additional capital ("buffer capital") Co-operative Insurance should hold over and above its most onerous regulatory capital requirement. The risk appetite during 2015 is to aim to hold a buffer at least sufficient to meet a 1-in-6 year event and to target a buffer sufficient to meet a 1-in-10 year event. The risk appetite is reviewed periodically and has remained unchanged throughout 2015.

While Co-operative Insurance has maintained capital above all its regulatory requirements throughout 2015, for much of the year it has been at levels below its 1-in-6 year risk appetite buffer capital requirement. Co-operative Insurance reviews solvency continuously through weekly, or when appropriate daily, monitoring. Monthly reports are provided to the Executive Risk Committee and Board.

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

- Actions to reduce insurance risk through the purchase of reinsurance;
- Actions to reduce other types of risk – for example, de-risking the investment portfolio; and
- Actions that would require an increased risk appetite – for example, holding a smaller margin over best estimate in claims reserves.

Well established processes are in place to ensure that the first two categories are assessed for implementation at least once a year. No actions are being taken that would require an increased risk appetite as this is not felt to be appropriate at this time.

Under the Solvency II regime, whilst the Standard Formula SCR determines the regulatory required capital, Co-operative Insurance will be using its Internal Model to calculate an Economic Capital metric, which reflects its own view of risk. This metric will consider, amongst other things, the full run off of risks, rather than just the risks over the next 12 months and will be integral to the ORSA. The Internal Model will therefore continue to be used to make decisions in a similar way to the old ICA regime as described above.

All amounts are stated in £m unless otherwise indicated

(c) Capital composition

Co-operative Insurance regulatory MCR capital resources comprise total shareholders' equity and subordinated debt, excluding inadmissible assets and equalisation provisions recognised in equity. In the first half of 2015, Co-operative Insurance successfully sourced a capital injection of £70m, which has been necessary to finance the transformation project.

	2015	2014
Capital and reserves per the financial statements	**322.6**	381.4
Subordinated debt	**67.7**	-
Inadmissible assets	**(2.4)**	(6.2)
Statutory claims equalisation reserve	**(28.5)**	(29.6)
Discounting on technical provisions	**(1.0)**	(1.5)
Regulatory capital	**358.4**	344.1

(d) Solvency II (unaudited)

On 1 January 2016, Solvency II, a new European Union (EU) wide regulatory regime came into force and replaced the previous capital measures. This new solvency framework is intended to achieve greater harmonisation of approach across EU member states to assessing capital resources and requirements. Under Solvency II, the Solvency Capital Requirement (SCR) has replaced the ICA and ICG, and the MCR has been re-defined.

Co-operative Insurance is using the Standard Formula (SF), rather than the Internal Model, to calculate the SCR. An analysis has been undertaken to assess the appropriateness of the Standard Formula to Co-operative Insurances risk profile and as a result of this analysis, Co-operative Insurance has identified the need to hold additional capital in respect of additional operational risks associated with the ongoing transformation programme, whilst this programme is live. Co-operative Insurance has calculated the additional capital that would be required to cover this risk and requested an add on to the SCR, which has been approved by the PRA.

Co-operative Insurance has developed the Internal Model (IM) previously used to calculate its ICA, so that it is now able to calculate both an SCR and an Economic Capital Requirement (ECR). The ECR will be used to determine the company's own view of risk as described in section (b) above. Co-operative Insurance is actively progressing with activities to meet the required standards to apply to the PRA for approval to use Co-operative Insurance's Internal Model to calculate the SCR.

All amounts are stated in £m unless otherwise indicated

1. Segmental analysis

The business segments of Co-operative Insurance are presented in line with the management information as reported to the Chief Executive Officer, the Chief Operating Decision Maker (CODM).

Co-operative Insurance evaluates the performance of operating segments on the basis of the combined operating ratio, being the ratio of combined costs (operating expenses, claims and commission, net of other income) to net earned premiums. Overall Co-operative 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 segments in which they are generated.

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

Business segments

Co-operative Insurance comprises the following segments:

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

Segmented income statement for the year ended 31 December 2015

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

Segmented income statement for the year ended 31 December 2014

	Motor	Home	Other	Total
Net earned premiums	233.3	137.5	1.8	372.6
Net claims incurred	(182.2)	(57.1)	(9.3)	(248.6)
Net fee and commission (expenses)/income	(3.0)	(5.8)	1.6	(7.2)
Operating expenses	(81.9)	(53.3)	(2.4)	(137.6)
Net investment return	18.5	3.3	0.6	22.4
Other expenses	(6.8)	(1.4)	(0.2)	(8.4)
Segmented operating profit/(loss)	(22.1)	23.2	(7.9)	(6.8)
In force policy count (Individual policies held)	613,958	680,371	-	1,294,329

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.

	2015	2014
Operating expenses		
Total operating expenses for reportable segments	**(122.7)**	(137.6)
Reclassification of investment expenses	**(1.1)**	(1.2)
Financial Services Compensation Scheme levies*	**-**	1.0
Operating expenses	**(123.8)**	(137.8)

*As of 2015 Financial Services Compensation Scheme levies are included in Operating expenses.

All amounts are stated in £m unless otherwise indicated

1. Segmental analysis (continued)

Reconciliation of segmental income to statutory income statement (continued)

	2015	2014
Commission expenses		
Total commission expenses for reportable segments	**(8.6)**	(7.2)
Reclassification of commission income	**(11.2)**	(9.5)
Fee and commission expenses	**(19.8)**	(16.7)
Other expenses is made up of:		
Financial Services Compensation Scheme levies	**-**	1.0
Costs in respect of Transformation Programme	**(47.4)**	(6.0)
Finance costs	**(5.6)**	(3.4)
	(53.0)	(8.4)
Investment return		
Total investment return for reportable segments	**17.1**	22.4
Reclassification of investment expenses	**1.1**	1.2
Investment return (analysed as below in the income statement)	**18.2**	23.6
Investment income	**15.3**	20.6
Gains less losses arising from financial instruments	**2.9**	3.0
	18.2	23.6

2. Net earned premiums

	2015	2014
Gross premiums		
Gross written premiums	**424.3**	365.2
Change in unearned premium provision	**(48.5)**	34.8
Gross earned premiums	**375.8**	400.0
Outward reinsurance premiums		
Premiums ceded	**(30.5)**	(25.7)
Change in unearned premium provision	**(0.1)**	(1.7)
Premiums ceded to reinsurers	**(30.6)**	(27.4)
Net earned premiums	**345.2**	372.6

3. Fee and commission income

	2015	2014
Fee income	**8.6**	6.5
Reinsurance commission earned	**1.3**	2.3
Other commission	**1.3**	0.7
	11.2	9.5

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

All amounts are stated in £m unless otherwise indicated

4. Investment income

	2015	2014
Interest and similar income from assets held at fair value through income or expense:		
Deposits with credit institutions	**0.8**	0.7
	0.8	0.7
Interest income (calculated using Effective Interest Rate) from available for sale assets:		
Listed debt securities	**14.5**	19.9
	15.3	20.6

5. Gains less losses arising from financial instruments

	2015	2014
Net gains arising on financial assets:		
Available for sale listed debt securities	**2.9**	3.0
	2.9	3.0

6. Net policyholder claims and benefits paid

	2015	2014
Gross claims paid		
Current year claims	**125.5**	136.7
Prior year claims	**192.3**	253.1
Gross claims paid	**317.8**	389.8
Less salvage and subrogation		
Current year claims	**(9.2)**	(10.7)
Prior year claims	**(16.2)**	(14.7)
Salvage and subrogation received	**(25.4)**	(25.4)
Claims paid	**292.4**	364.4
Less amounts receivable from reinsurers		
Current year claims	**(3.4)**	(4.0)
Prior year claims	**(2.6)**	(3.8)
Amounts receivable from reinsurers	**(6.0)**	(7.8)
Net policyholder claims and benefits paid	**286.4**	356.6

7. Fee and commission expenses

	2015	2014
Commission paid	**24.4**	16.1
Change in deferred commission	**(4.6)**	0.6
	19.8	16.7

8. Operating expenses

	2015	2014
Other acquisition expenses	**28.4**	47.1
Administration expenses	**95.4**	90.7
Costs in respect of Transformation Programme	**47.4**	6.0
Operating Expenses	**171.2**	143.8

Co-operative Insurance does not have any employees; all sales are effected by employees of CFS Management Services Limited (CFSMS) which also provides some administration and other services. CFSMS is also responsible for the remuneration of all directors of the Co-operative Insurance. Co-operative Insurance is charged a management service charge from CFSMS, at cost. Key management compensation is discussed in note 27.

Included within the administration expenses is £5.8m (2014: £5.9m) paid by Co-operative Insurance in respect of regular pension contributions, which includes £1.9m (2014: £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.

Operating expenses include the following payments to auditors and their associates:

	2015 £'000	2014 £'000
Audit of these financial statements	**163**	173
Amounts receivable by Co-operative Insurance's auditor and its associates in respect of:		
Audit-related assurance services	**194**	79
Other assurance services	**124**	194
	481	446

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

2014 audit-related assurance services are in respect of the audit of regulatory returns and half year review of interim financial information for consolidation into the Interim Report for the Co-operative Group. Other assurance services relates to assurance reporting on Co-operative Insurance's preparations for Solvency II.

9. Income tax

	2015	2014
Current tax		
UK tax for the current year	**7.7**	(0.2)
UK tax adjustments in respect of prior years	**6.0**	-
Total current tax credit/(charge)	**13.7**	(0.2)
Deferred tax		
Origination and reversal of temporary differences	**0.6**	0.1
Total deferred tax credit	**0.6**	0.1
Total tax credit/(charge) recognised in the income statement	**14.3**	(0.1)

Further information about deferred income tax is presented in note 21.

All amounts are stated in £m unless otherwise indicated

9. Income tax (continued)

Reconciliation of effective tax rate

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

	2015	2014
Loss before taxation	**(66.1)**	(6.8)
Tax calculated at domestic corporation tax rate of 20.25% (2014: 21.49%)	**13.4**	1.5
Effect of:		
Expenses not deductible for tax (including significant items)	**(0.1)**	(1.6)
Depreciation and amortisation in excess of capital allowances	**(0.1)**	(0.1)
Adjustment in respect of prior years	**6.0**	-
Movement in claims equalisation reserve	**0.2**	0.1
Tax losses arising in the year and carried back to be utilised against prior year profits	**(5.5)**	-
Restatement of deferred tax to 18.75% (2014:20%)	**0.4**	-
Income tax credit/(charge)	**14.3**	(0.1)

10. Property, plant and equipment

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

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

During 2014 £0.5m of tangible assets were transferred from CFSMS. No profit or loss arose on the transfer of the assets. CFSMS acted as a service company for the Co-operative Banking Group and held the fixed assets on it's balance sheet as part of this function.

All amounts are stated in £m unless otherwise indicated

11. Intangible Assets

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

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

12. Deferred acquisition costs

	2015	2014
At the beginning of the financial year	20.2	35.3
Deferred acquisition costs	54.7	46.7
Amortisation	(46.8)	(61.8)
At the end of the financial year	28.1	20.2

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

13. Financial investments at fair value through income or expense

	2015	2014
Deposits with credit institutions	**199.1**	156.3

All amounts in the current and prior year are expected to be recovered within one year. Within the above are reverse repo balances of £199.1m (2014: £147.0m). Collateral of £191.0m is held as security against this balance (2014: £147.0m). Please see the credit risk note on pages 39 to 41 for further details.

This category comprises short term fixed rate deposits which are designated as fair value through income and expense upon initial recognition.

14. Available for sale assets

	2015	2014
Listed debt securities - fixed rate	**562.6**	602.9
Listed debt securities - floating rate	**129.4**	161.7
	692.0	764.6

At 31 December 2015, debt securities of £650.0m (2014: £661.3m) are expected to be recovered more than 12 months after the reporting date.

15. Insurance receivables and other assets

	2015	2014
Receivables arising from insurance:		
Arising from insurance operations	**179.9**	118.4
Salvage and subrogation recoveries	**27.5**	21.8
Reinsurance ceded	**1.0**	0.7
Other receivables:		
Accrued interest	**9.2**	10.9
Amounts receivable from Group companies	**0.2**	7.0
Prepayments	**1.7**	0.4
Investment receivables	**0.3**	-
	219.8	159.2

No amounts are due after more than one year.

Due to the year-on-year increase in GWP, the receivables arising from insurance operations has increased from £118.4m to £179.8m. A significant proportion of this relates to a commercial agreement with Co-operative Insurance's main intermediary. This permits premiums received and receivable from customers to be receipted on a monthly basis over 12 months. The main intermediary is solvent and profitable but unrated. Management continue to monitor the outstanding balance and currently accept the resulting credit risk.

Receivables arising from insurance operations are stated net of an impairment provision of £0.4m (2014: £0.3m). 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 £26.7m (2014: £13.1m) which are due and overdue; amounts due and overdue but not impaired are £26.3m (2014: £12.8m), being the due and overdue amount net of the impairment provision detailed above. Amounts due and overdue are age analysed as follows:

	2015	2014
Amounts due and overdue:		
Less than 3 months	**26.7**	12.7
3 to 6 months	**-**	0.1
6 to 12 months	**-**	0.3
More than 12 months	**-**	-

Assets past due typically comprise high volume/low value balances for which Co-operative 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

16. Bank overdraft

	2015	2014
Bank overdraft	**3.6**	7.9
Bank overdraft	**3.6**	7.9

Bank overdrafts are repayable on demand and form an integral part of Co-operative Insurance's cash management. As such they are included as cash and cash equivalents for the purpose of the statement of cash flows.

17. Share capital

	2015	2014
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.

18. Retained earnings and other reserves

	2015	2014
Retained earnings		
At the beginning of the financial year	**43.0**	49.9
Loss for the year	**(51.8)**	(6.9)
At the end of the financial year	**(8.8)**	43.0

	2015	2014
Other reserves		
Available for Sale	**6.3**	13.3
Capital Reserves	**57.1**	57.1
Retained earnings	**63.4**	70.4

Any retained earnings would represent amounts available for dividend distribution to the equity shareholder of Co-operative 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. Further details are given within the statement of changes in equity on page 23.

19. Borrowed funds

	2015	2014
Callable dated deferrable tier two notes	**67.7**	**-**
	67.7	-

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

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 £5.6m (2014: £3.2m) in relation to interest on the subordinated debt.

All amounts are stated in £m unless otherwise indicated

20. Insurance contract liabilities and reinsurance assets

(a) Analysis of insurance contract liabilities

	2015	2014
Gross		
Claims reported	**358.3**	406.7
Claims incurred but not reported	**153.2**	135.1
Claims settlement expenses	**13.0**	12.6
Unearned premiums	**220.9**	172.4
Unexpired risk provision	**0.8**	10.8
Total gross insurance liabilities	**746.2**	737.6
Recoverable from reinsurers		
Claims reported	**(30.8)**	(39.2)
Claims incurred but not reported	**(37.4)**	(32.3)
Unearned premiums	**(0.3)**	(0.4)
Total reinsurers' share of insurance liabilities	**(68.5)**	(71.9)
Net		
Claims reported	**327.5**	367.5
Claims incurred but not reported	**115.8**	102.8
Claims settlement expenses	**13.0**	12.6
Unearned premiums	**220.6**	172.0
Unexpired risk provision	**0.8**	10.8
Total net insurance liabilities	**677.7**	665.7

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

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

i) Basis of assessing liabilities

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

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

- projecting historic claims payment and recoveries data;
- projecting numbers of claims;
- adjusting case estimates for future inflation and onto a provisioning basis;
- deriving average costs per claim to apply to claim numbers; and
- projecting historic claims paid and incurred data (payment plus estimates) – statistical actuarial techniques including chain ladder, Bornhuetter-Ferguson and Cape Cod.

20. Insurance contract liabilities and reinsurance assets (continued)

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

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

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

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

Discounted reserves in respect of periodic payment settlements are £23.2m (2014: £21.4m) and EIROS discounted reserve amounts to £2.9m (2014: £3.8m). Further details around expected settlement patterns for claims arising on these reserves are disclosed within the market risk section on pages 36 to 37.

The EIROS reserve was based on a report produced for the industry at the end of 2013, by Towers Watson an actuarial consultancy. This gave Towers Watson's estimate of both the undiscounted and discounted incurred but not reported (IBNR) reserves as at the end of June 2013. This was the most recent report available when Co-operative Insurance calculated its year end 2015 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 2015 Co-operative Insurance held an URP of £0.8m (2014: £10.8m).

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

The overall objective of Co-operative 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 QRC, and any margin above the actuarial best estimate reserve is set by the Chief Financial Officer.

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

ii) Key assumptions

Principal assumptions underlying the claims provisions include:

- Allowance for future inflation rates being different to those implied in the claims data; and
- for bodily injury claims allowance has been made for:
  i. use of the appropriate Ogden Tables;
  ii. awards for general damages in accordance with the 13th edition of the Judicial College Guidelines;
  iii. a proportion of large claims being settled by periodic payments; and
  iv. improvements in the case estimation techniques resulting in earlier recognition of the size of claims.

There were no material affects in 2015 owing to any changes to assumptions.

All amounts are stated in £m unless otherwise indicated

20. Insurance contract liabilities and reinsurance assets (continued)

(b) Change in general insurance liabilities and reinsurance assets

The gross insurance provision for claims and loss adjustment expenses arising in respect of prior years of £349.1m (2014: £392.7m) includes a movement of £12.9m (2014: £10.9m) arising from a release of reserves, as follows:

	2015	2014
Fire and Accident increase of reserves	**(5.5)**	(4.2)
Motor release of reserves	**23.6**	19.1
(Increase) in claims handling reserves	**(5.2)**	(4.0)
Movement in gross insurance liabilities	**12.9**	10.9

iii) Sensitivity analysis

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

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

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

(c) Change in general insurance liabilities and reinsurance assets

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

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

All amounts are stated in £m unless otherwise indicated

20. Insurance contract liabilities and reinsurance assets (continued)

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

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

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

Salvage and subrogation is included within assets as part of insurance receivables (note 15).

ii) Claims and loss adjustment expenses

	Gross 2015	**Reinsurance 2015**	**Net 2015**	Gross 2014	Reinsurance 2014	Net 2014
Claims reported	**406.7**	**(39.2)**	**367.5**	495.3	(23.2)	472.1
Claims incurred but not reported	**135.2**	**(32.4)**	**102.8**	144.9	(31.5)	113.4
Claims settlement expenses	**12.6**	**-**	**12.6**	16.7	-	16.7
At the beginning of the year	**554.5**	**(71.6)**	**482.9**	656.9	(54.7)	602.2
Claims paid during the year	**(317.8)**	**6.0**	**(311.8)**	(389.8)	7.8	(382.0)
Increase/(decrease) in liabilities:						
Arising from current year claims	**300.8**	**(17.5)**	**283.3**	298.3	(8.9)	289.4
Arising from prior year claims	**(12.9)**	**14.8**	**1.9**	(10.9)	(15.8)	(26.7)
Total movement	**(29.9)**	**3.3**	**(26.6)**	(102.4)	(16.9)	(119.3)
Claims reported	**358.3**	**(30.8)**	**327.5**	406.7	(39.2)	367.5
Claims incurred but not reported	**153.3**	**(37.4)**	**115.9**	135.2	(32.3)	102.8
Claims settlement expenses	**13.0**	**-**	**13.0**	12.6	-	12.6
At the end of the year	**524.6**	**(68.2)**	**456.4**	554.5	(71.5)	482.9

iii) Provisions for unearned premiums

	Gross 2015	**Reinsurance 2015**	**Net 2015**	Gross 2014	Reinsurance 2014	Net 2014
At the beginning of the year	**172.4**	**(0.4)**	**172.0**	207.2	(2.1)	205.1
Increase in the year	**424.3**	**(30.5)**	**393.8**	365.2	(25.7)	339.5
Release in the year	**(375.8)**	**30.6**	**(345.2)**	(400.0)	27.4	(372.6)
Movement in the year	**48.5**	**0.1**	**48.6**	(34.8)	1.7	(33.1)
At the end of the year	**220.9**	**(0.3)**	**220.6**	172.4	(0.4)	172.0

iv) Unexpired risk provision

	Gross 2015	**Reinsurance 2015**	**Net 2015**	Gross 2014	Reinsurance 2014	Net 2014
At the beginning of the year	**10.8**	**-**	**10.8**	2.2	-	2.2
Premiums written	**0.8**	**-**	**0.8**	10.8	-	10.8
Premiums earned	**(10.8)**	**-**	**(10.8)**	(2.2)	-	(2.2)
Movement in the year	**(10.0)**	**-**	**(10.0)**	8.6	-	8.6
At the end of the year	**0.8**	**-**	**0.8**	10.8	-	10.8

Additional provision is made for unexpired risks where the claims and expense, likely to arise after the end of the financial year, in respect of contracts concluded before that date, are expected to exceed the unearned premiums at the end of the financial year. The provisions as at year end 2014 related to the motor class of business, whereas the provision at the year end of 2015 relates to home. Further details can be found in the accounting policy on page 29 and 30.

All amounts are stated in £m unless otherwise indicated

20. Insurance contract liabilities and reinsurance assets (continued)

(v) Analysis of claims development

	Accident year										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	**2015**	**Total**
Gross of reinsurance											
At end of the accident year:	419.3	384.5	347.3	325.9	411.3	497.0	502.1	368.1	284.7	**285.5**	**3,825.7**
One year later	412.1	387.8	319.7	333.1	455.4	530.2	473.3	346.9	269.0		**3,527.5**
Two years later	402.6	378.3	310.2	340.5	480.1	527.4	473.0	343.1			**3,255.2**
Three years later	393.5	364.2	300.3	328.7	465.5	518.0	467.9				**2,838.1**
Four years later	387.1	367.0	296.7	320.0	456.3	515.1					**2,342.2**
Five years later	387.7	366.3	293.6	320.4	464.3						**1,832.3**
Six years later	382.4	362.1	294.1	319.7							**1,358.3**
Seven years later	385.1	360.5	294.7								**1,040.3**
Eight years later	383.7	360.8									**744.5**
Nine years later	384.3										**384.3**
Estimate for cumulative claims	384.3	360.8	294.7	319.7	464.3	515.1	467.9	343.1	269.0	**285.5**	**3,704.4**
Cumulative payments to date	(372.2)	(350.3)	(292.4)	(310.5)	(438.9)	(494.1)	(416.7)	(278.1)	(202.0)	**(117.0)**	**(3,272.2)**
Gross outstanding claims liabilities before discounting	12.1	10.5	2.3	9.2	25.4	21.0	51.2	65.0	67.0	**168.5**	**432.2**
Provision for prior years before discounting											**80.3**
Discounting											**(1.0)**
Gross outstanding claims liabilities											**511.5**
Gross claims reported											**358.2**
Gross claims incurred but not reported											**153.2**
Gross outstanding claims liabilities											**511.5**

All amounts are stated in £m unless otherwise indicated

20. Insurance contract liabilities and reinsurance assets (continued)

(v) Analysis of claims development (continued)

	Accident year										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	**2015**	**Total**
Net of reinsurance											
At end of the accident year:	416.6	372.6	334.6	313.1	398.4	481.2	489.8	350.9	275.9	**267.9**	**3,701.0**
One year later	408.9	377.8	305.5	320.7	434.3	514.8	456.3	330.4	260.6		**3,409.3**
Two years later	400.8	369.8	296.3	325.4	458.6	516.5	458.7	329.7			**3,155.8**
Three years later	392.5	357.8	291.8	317.6	445.2	509.4	456.3				**2,770.6**
Four years later	386.0	359.4	289.6	310.0	439.4	506.9					**2,291.3**
Five years later	385.2	359.2	287.2	307.3	447.9						**1,786.8**
Six years later	380.2	355.2	287.8	310.2							**1,333.4**
Seven years later	379.7	353.7	288.3								**1,021.7**
Eight years later	379.3	354.0									**733.3**
Nine years later	379.3										**379.3**
Estimate for cumulative claims	379.3	354.0	288.3	310.2	447.9	506.9	456.3	329.7	260.6	**267.9**	**3,601.1**
Cumulative payments to date	(371.6)	(343.6)	(286.2)	(304.7)	(431.3)	(488.3)	(411.0)	(272.4)	(197.2)	**(113.5)**	**(3,219.8)**
Net outstanding claims liabilities before discounting	7.7	10.4	2.1	5.5	16.6	18.6	45.3	57.3	63.4	**154.4**	**381.3**
Provision for prior years before discounting											**62.9**
Discounting											**(1.0)**
Net outstanding claims liabilities											**443.2**
Net claims reported											**327.4**
Net claims incurred but not reported											**115.8**
Net outstanding claims liabilities											**443.2**

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 2015 result includes movement on prior year reserves of £1.9m (2014: (£26.7)m).

All amounts are stated in £m unless otherwise indicated

21. Taxation

	2015	2014
Current tax		
Liability at the beginning of the financial year	**(10.6)**	(4.9)
Tax credited/(charged) to the income statement	**13.7**	(0.2)
Tax credited/(charged) directly to other comprehensive income:		
Changes in fair value on available for sale assets recognised through other comprehensive income	**1.8**	(5.5)
Tax paid during the financial year	**1.8**	-
Amount payable to Bank for group relief	**2.9**	-
Asset/(Liability) at the end of the financial year	**9.6**	(10.6)

	2015	2014
Deferred tax liability		
Liability at the beginning of the financial year	**(5.6)**	(5.7)
Tax credited to the income statement	**0.6**	0.1
Liability at the end of the financial year	**(5.0)**	(5.6)
Analysis of deferred tax liability		
Claims equalisation reserve	**(5.3)**	(5.9)
Capital allowances on fixed assets	**0.3**	0.3
Liability at the end of the financial year	**(5.0)**	(5.6)

Transfers to the equalisation reserve totalling £28.5m as at 31 December 2015 have been treated as tax deductible, however for accounts purposes the corresponding value is nil. The difference has been recognised as part of the Deferred Tax liability at 18.75%.

The Finance Act 2013 reduced the main rate of corporation tax from 21% to 20% from 1 April 2015. The Finance Act 2015 will further reduce the main rate of corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2015 has been calculated based on the rate of 18.75% substantively enacted at the balance sheet date.

22. Reinsurance liabilities

	2015	2014
Arising from reinsurance operations	**7.4**	0.5
	7.4	0.5

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

2015 saw an increase in Motor premiums above plan resulting in excess of loss adjustment premium and reinstatement premium under excess of loss.

23. Insurance and other payables

	2015	2014
Arising out of direct insurance operations	**1.0**	1.4
Accruals and deferred income*	**40.9**	16.8
Insurance premium taxation payable	**12.6**	6.6
Other payables	**12.6**	5.6
	67.1	30.4

All amounts are due within one year.

*Throughout 2015 Co-operative Insurance continued to separate activities from CFSMS, accruals are now wholly within the Co-operative Insurance ledger which has contributed to a significant increase to the balance.

24. Contingent assets and liabilities

Co-operative Insurance has a contract with Plexus Legal (formerly Parabis Ltd) for the provision of claims handling services for third party motor claims. These services are currently treated as VAT exempt within the annual report and accounts. However, this treatment has been challenged by Her Majesty's Revenue & Customs (HMRC). If the view of HMRC is upheld, Co-operative Insurance could be liable for a VAT charge (from 2010) of up to £3.1m (2014: £2.6m). Legal Counsel has indicated that it is probable that HMRC's view will be successfully challenged, and therefore a provision has not been made in the financial statements.

During 2012, a provision was raised by Co-operative Insurance Society Ltd (CISL), at the time a fellow subsidiary of the Co-operative Banking Group Limited, to cover the present value of lease commitments arising from the failure of a counterparty to which a number of leases had previously been assigned. As Co-operative Insurance benefited from the original assignment transaction, Co-operative Insurance made a cash contribution in 2012 of £2.6m towards the initial provision. In 2013, the provision and Co-operative Insurance's cash contribution was transferred into CFSMS. Co-operative Insurance has an agreement with CFSMS, to contribute to any additional costs in excess of the original provision it incurs. However the timing and size of this contribution is uncertain and as such a provision has not been made in Co-operative Insurance's year end accounts.

Co-operative 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-operative 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 25 and pension risk on page 41). As explained in note 8, Co-operative Insurance is currently recharged by CFSMS for its share of the pension contributions, including an element of the PACE deficit funding. The directors have no reason to believe that CFSMS will not be able to continue making payments to PACE when due and therefore, at the current time, do not expect any payments to be required under the guarantee.

As a financial services provider, Co-operative Insurance is subject to extensive and comprehensive regulation. It must comply with numerous laws and regulations, including the Consumer Credit Act, which significantly affect the way it does business. Whilst Co-operative Insurance believes there are no unidentified areas or failures to comply with these laws and regulations which would have a material impact on the financial statements, there can be no guarantee that all issues have been identified.

25. Commitments

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

26. Parent company

In October 2015 Co-operative Banking Group Limited (the immediate parent of the CIS General Insurance Ltd), entered into an agreement to sell 100% of the Co-operative Insurance's share capital to the Cooperative Group Limited (267,999,998 ordinary shares of £1.00 each) and Co-operative Group Holdings (2011) Limited (1 ordinary share of £1.00 each).

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 holding organisation are available from 1 Angel Square, Manchester, M60 0AG.

All amounts are stated in £m unless otherwise indicated

27. Related party transactions

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

	Balances with parent undertaking 2015	**Co-operative Bank**	**Balances with other related parties* 2015**	Balances with parent undertaking 2014	Co-operative Bank	Balances with other related parties* 2014
Balances with related parties						
At the beginning of the financial year	**-**	**1.3**	**6.9**	(85.0)	0.9	(56.7)
Movement in capital value	**-**	**(1.4)**	**(6.7)**	85.0	0.4	63.6
At the end of the financial year	**-**	**(0.1)**	**0.2**	-	1.3	6.9

*Other related parties are all either fellow subsidiaries or parent.

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

Co-operative Legal Services Limited, a subsidiary of the Co-operative Group Limited, provides legal cover to Co-operative Insurance motor and home policyholders. Co-operative Insurance has paid £1.7m (2014: £1.8m) in relation to this cover.

Co-operative Insurance has an indemnification agreement, accounted for as an intra-group guarantee under IFRS 4, with CFSMS in which Co-operative 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 £76.2m (2014: £132.0m) included in operating expenses and claims handling costs incurred were charged to Co-operative Insurance from CFSMS.

Key management (as defined by IAS 24) is considered to include the executive committee members of Co-operative Insurance. Details of transactions and balances during the financial period are provided below.

All staff costs are borne by CFSMS and charged out to other companies within the Banking Group and CIS General Insurance Ltd at cost.

Key management compensation

	2015	2014
Salaries and short term benefits	**2.9**	2.1
	2.9	2.1

All amounts are stated in £m unless otherwise indicated

28. 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 balance sheet date without any deduction for transaction costs.

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

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

(c) Borrowed funds

Fair value measurement is calculated on a current market price.

(d) Receivables and payables

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

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

Financial liabilities	**Carrying value 2015**	**Fair value 2015**	Carrying value 2014	Fair value 2014
Borrowed funds	**67.7**	**71.4**	-	-

Financial asset and liability classification

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

Balance sheet categories 2015	**Designated at fair value**	**Loans and receivables**	**Available for sale**	**Other amortised cost**	**Total**
Assets					
Financial assets at fair value through income or expense	**199.1**	**-**	**-**	**-**	**199.1**
Available for sale assets	**-**	**-**	**692.0**	**-**	**692.0**
Other financial assets	**-**	**190.6**	**-**	**-**	**190.6**
Total financial assets	**199.1**	**190.6**	**692.0**	**-**	**1,081.7**
Non-financial assets					**137.9**
Total assets					**1,219.6**
Liabilities					
Borrowed funds	**-**	**-**	**-**	**67.7**	**67.7**
Overdrafts	**-**	**-**	**-**	**3.6**	**3.6**
Other financial liabilities	**-**	**-**	**-**	**66.4**	**66.4**
Total financial liabilities	**-**	**-**	**-**	**137.7**	**137.7**
Non-financial liabilities					**759.3**
Total liabilities					**897.0**
Capital and reserves					**322.6**
Total liabilities and equity					**1,219.6**

All amounts are stated in £m unless otherwise indicated

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

Financial asset and liability classification

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

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-operative 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.

All amounts are stated in £m unless otherwise indicated

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

Valuation of financial instruments 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through income or expense	**-**	**199.1**	**-**	**199.1**
Available for sale assets	**-**	**692.0**	**-**	**692.0**
Total financial assets at fair value	**-**	**891.1**	**-**	**891.1**
Liabilities				
Borrowed funds	**-**	**71.4**	**-**	**71.4**
Total financial liabilities at fair value	**-**	**71.4**	**-**	**71.4**

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

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

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

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

G**eneral Insurance Limited**
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