Governance report

<table>
<thead>
<tr>
<th>Page</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>37</td>
<td>Executive Biographies</td>
</tr>
<tr>
<td>38</td>
<td>Board Biographies</td>
</tr>
<tr>
<td>40</td>
<td>Governance Review</td>
</tr>
<tr>
<td>47</td>
<td>Report of the Risk and Audit Committee</td>
</tr>
<tr>
<td>53</td>
<td>Report of the Remuneration Committee</td>
</tr>
<tr>
<td>66</td>
<td>Report of the Nominations Committee</td>
</tr>
<tr>
<td>69</td>
<td>Directors’ Report</td>
</tr>
<tr>
<td>71</td>
<td>Council’s Annual Statement</td>
</tr>
<tr>
<td>73</td>
<td>Report of the Scrutiny Committee</td>
</tr>
</tbody>
</table>
Executive Biographies

Richard Pennycook
Chief Executive
Appointed as Chief Executive of the Group in 2014, after having joined as Chief Financial Officer in 2013. Previous main Board roles at Morrisons, RAC and JD Wetherspoon. Also Chairman of The Hut Group Limited and Institute for Turnaround, and Chairman-elect of Howdens Joinery Ltd.

Richard was appointed as an Executive Director of the Group on 13 January 2015.

Pippa Wicks
Chief Operating Officer
Working with the Group since 2014 from the business consultants AlixPartners where she co-founded the firm’s European operations. Prior to joining AlixPartners, she was CEO of FT Knowledge, a division of Pearson plc, Group CFO of Courtaulds Textiles plc and a senior manager with Bain & Company strategy consultants. While at AlixPartners she has taken on a number of interim CEO and COO positions at UK and European companies.

Mike Bracken
Chief Digital Officer
Joined the Co-op as Chief Digital Officer in October 2015. His focus will be on creating a Co-op fit for the digital age, based on an open, agile culture and excellent digital services. Since 2011, Mike was at the Cabinet Office as Executive Director of Digital and more recently was also appointed as the Government’s first Chief Data Officer.

Ian Ellis
Chief Finance Officer
Joined as Chief Finance Officer for the Group in 2015. Previously CFO for Wilkos for nearly eight years and prior to that held a number of senior finance positions at Morrisons and Northern Foods Plc.

Ian was appointed as an Executive Director of the Group on 6 April 2016.

Sam Walker
Chief HR Officer
Joined the Group in 2013 from Britvic Soft Drinks. Has over 27 years’ experience in HR across a number of sectors including media, FMCG, pharmaceuticals and utilities. She has also worked within marketing, sales and operations.

Alistair Asher
Group General Counsel
Joined the Group in 2013 from Allen & Overy LLP where he was a senior partner and Global Head of the Financial Institutions Group. Alistair had a 34 year career with Allen & Overy, 26 of them as a partner and represented several major building societies, banks and companies in a wide range of commercial and corporate finance transactions.

Rod Bulmer
Chief Executive, Consumer Services
Joined the Group Executive in 2014 after seven years with the Co-operative Financial Services and the Co-operative Banking Group. Before joining the Group, held roles including Managing Director of Retail within the UK operation at Santander Group and Director of Branch Network at Abbey National Group.

Steve Murrells
Chief Executive, Retail
Joined as Chief Executive of The Co-operative Food in 2012. Previously CEO of Danish meat company, Tulip. Has a long history in fresh food retailing, having held a number of positions with Tesco, including CEO for One Stop Stores and Commercial Director of Fresh Foods. Has also worked within buying and trading for Sainsbury’s.

Helen Grantham
Group Secretary
Joined as Group Secretary in January 2016. Qualified as a solicitor in 1989 and for the last 20 years has practised as both a General Counsel and Company Secretary for listed companies working at Board level, most recently for Dixons Carphone PLC.
Board Biographies

Allan Leighton
Appointed as Independent Chair on 19 February 2015.

Committee Membership
Nominations (Chair)

Skills and Experience
Allan has held a series of high profile roles, including Chief Executive of Asda from 1996 to 2000, Non-Executive Chairman of Royal Mail from 2002 to 2009 and President of Loblaw, the largest food retailer in Canada, from 2008 to 2011.

Allan is currently the Chairman of Matalan Ltd, Entertainment One Ltd, Wagamama and Canal & River Trust. Allan is also Deputy Chairman of Pandora AS.

Sir Christopher Kelly
Appointed as Senior Independent Non-Executive Director on 14 November 2014.

Committee Membership
Remuneration, Nominations

Skills and Experience
Sir Christopher chaired the Group’s independent review which considered the events leading up to the re-capitalisation plan for The Co-operative Bank plc in 2013. Prior to this Sir Christopher was a senior public servant for many years. Sir Christopher currently chairs the King’s Fund and the Responsible Gambling Strategy Board and previously chaired the Committee on Standards in Public Life, the Financial Ombudsman Service and the NSPCC. Sir Christopher has also been a senior official in HM Treasury and was Permanent Secretary of the Department of Health.

Ruth Spellman
Appointed as a Member Nominated Director on 16 May 2015.

Committee Membership
Remuneration, Nominations

Skills and Experience
In 2012, Ruth was appointed as Chief Executive of the Workers’ Educational Association (WEA) - an organisation with the same roots as the Co-op. She is the first female to hold this position. Ruth was awarded an OBE in 2007 for services to workplace learning.

Ruth’s non-executive roles include being a Director of the Centre for Talent and Innovation and a Council Member of the Open University. Ruth is also Chair of the Staff Strategy Committee and Trustee of Adviza, a careers advisory company. In her career, Ruth has been a CEO of three membership organisations. Ruth was formerly Chief Executive of the Chartered Management Institute (CMI), and has previously been CEO of the Institution of Mechanical Engineers and Investors in People (IIP) UK. Ruth worked as a senior consultant in HR in the private sector and was HR Director of the NSPCC.

Paul Chandler
Appointed as a Member Nominated Director on 16 May 2015.

Committee Membership
Risk & Audit

Skills and Experience
Paul was Chief Executive of Traidcraft from 2001 to 2013, and President of the European Fair Trade Association from 2005 to 2012. Drawing on his fair trade experience and early career at Barclays Bank, Paul is now focusing on promoting responsible practices in business and financial services. Paul is also Chair of the William Leech Foundation and Durham Cathedral Council, a Director of Shared Interest, a Fellow of St Chad’s College in Durham University and a Trustee of the County Durham Community Foundation.
Board Biographies continued

Hazel Blears
Appointed as a Member Nominated Director on 16 May 2015.

Committee Membership
Risk & Audit, Nominations

Skills and Experience
Hazel was a Labour Member of Parliament from 1997 to 2015, representing Salford and Eccles. Hazel has held a number of senior positions in government including Public Health Minister, Police and Counter Terrorism Minister and Communities Secretary. Hazel also served on the National Intelligence and Security Committee. Hazel’s other roles include being a Member of the Advisory Board of Aspire (a health and social care co-op), Chair of the Social Investment Business and Chair of the Institute for Dementia at Salford University.

Stevie Spring
Appointed as an Independent Non-Executive Director on 25 June 2015.

Committee Membership
Remuneration (Chair)

Skills and Experience
Stevie is a respected Board Director with broad Executive and Non-Executive experience across the private, public and not for profit sectors. After a successful career in brand marketing and consumer advertising, she became CEO of Clear Channel, the world’s largest radio, out of home and live entertainment company; then of Future PLC, an international media company, where she led its digital transformation. Stevie’s portfolio currently includes Chairing ITG; Kino-mo (both technology companies specialising in retail) and BBC Children in Need. Stevie serves on the Boards of Kent University and the ALCS and was named in The Sunday Times/Debretts 2016 list of Britain’s 500 most influential people.

Simon Burke
Appointed as an Independent Non-Executive Director on 14 November 2014.

Committee Membership
Risk & Audit (Chair), Nominations

Skills and Experience
Simon was previously an Independent Non-Executive Director of the Group’s subsidiary, Co-operative Food Holdings Ltd. Simon was appointed Chair of the Group Risk & Audit Committee on 25 June 2015. Simon is a Chartered Accountant and is currently a Non-Executive Director for the BBC, and Chair of The Light Cinemas (Holdings) Limited and Blue Diamond Limited. Simon was previously Chair of both BathStore and Hobbycraft, and CEO for Virgin Retail, Virgin Cinemas and Virgin Entertainment Group.

Lord Victor Adebowale CBE
Appointed as an Independent Non-Executive Director 6 April 2016.

Skills and Experience
Victor is Chief Executive of the social care enterprise, Turning Point. He’s been involved in a number of taskforce groups who advise the Government on mental health, learning disabilities and the role of the voluntary sector.

He’s Co-Chair of the Black and Minority Ethnic Mental Health National Steering Group and a member of the Advisory Council on the Misuse of Drugs. He’s also a member of the National Employment Panel, the New Economics Foundation Board and the Institute for Fiscal Studies Council. On top of all that, Victor is on the policy advisory board of the Social Market Foundation, and on the board of the National School of Government.

Peter Plumb
Appointed as an Independent Non-Executive Director 25 June 2015.

Skills and Experience
Peter has been the CEO of Moneysupermarket.com, the leading price comparison service in the UK, since 2009. Peter studied civil engineering at Birmingham University and gained an MBA from IMD in Switzerland. Peter was UK Managing Director of dunnhumby, the engine room of Tesco’s Clubcard, and has also held senior leadership roles in top consumer businesses including Disney, Dyson and PepsiCo.

Richard Pennycook (the Group Chief Executive) and Ian Ellis (the Group Chief Finance Officer) also serve on the Board as Executive Directors. Their biographies can be found on page 37.
Governance Review

Dear Member

2015 saw the final elements of our modernised and reformed governance regime being introduced at the Annual General Meeting (AGM). We are pleased to say the new arrangements are bedding in well, with your new Group Board and Members’ Council working together on some key initiatives.

A crucial part of the changes was the creation of a new Group Board, which would have the skills and experience to lead the Group through the next crucial journey of Rebuild. During the year we welcomed three Member Nominated Directors (MNDs), Hazel Blears, Paul Chandler and Ruth Spellman, all of whom were successfully elected from our base of 2.7 million eligible members. In June, we also welcomed the appointment of two Independent Non-Executive Directors (INEDs), Stevie Spring and Peter Plumb, further strengthening the Group Board. All have made a great contribution already to the progress we are making. We have also recently appointed Lord Victor Adebowale as an additional INED and Ian Ellis, the Group’s Chief Finance Officer, as an Executive Director.

Equally important was the establishment of the structure and ways of working for our Members’ Council and the implementation of new processes to support One Member One Vote. May 2015 saw the historic occasion of our first AGM under the new governance rules and for the first time, our members had a direct say in the future of the Group. Over 90,000 members voted on motions put forward to the meeting and, of those, more than 500 voted in person at the AGM itself.

We are now well into the three-year Rebuild programme and the primary focus for the Board over the coming year is to ensure the execution and delivery of our commercial and member strategy. Our Governance priorities for 2016 are to further strengthen the Group Board by the appointment of a fourth MND, to encourage more members to have their say by voting on motions and to make the 2016 AGM even more engaging for members than last year’s.

I look forward to seeing you there!

Allan Leighton
Group Chair
Governance Review continued

Compliance with the UK Corporate Governance Code
The Co-operative Group is a consumer co-operative which is jointly owned by over 5 million members. It is registered under the Co-operative and Community Benefit Societies Act 2014 and has listed debt instruments with the UKLA. It is not mandatory for the Group to comply or report on its compliance with all the provisions of the UK Corporate Governance Code (the Code) published by the Financial Reporting Council. In fact, the democratic nature of the Group and its ownership by members makes certain provisions of the Code difficult to apply. However, where possible and appropriate, the Group aims to conform to the Code’s key principles to ensure alignment with good practice, transparency and openness.

The format of this report follows the Code’s key themes of leadership, effectiveness, accountability, engagement and relations with our members. The required regulatory and governance assurances are provided in this report. Where we have not complied, we have endeavoured to provide a supporting explanation in line with the ‘comply or explain’ approach.

The Group also adheres to the spirit of the Corporate Governance Code for Consumer Co-operatives and reports compliance with this directly to the publisher of this Code, Co-operatives UK.

The route to reform
Background
This section provides an update on the Governance Reform Project which commenced in 2014 to deliver radical reform of our governance arrangements and structures.

At a Special General Meeting in August 2014, members voted in favour of a new Rulebook which defined the new governance structure. From October 2014, the Group Board and its Committees operated under a transitional phase, working to put in place the four principles of reform which were designed to modernise and reform our governance arrangements. The transitional phase continued during the first half of 2015, until the adoption of the new Rulebook by members at the AGM on 16 May 2015.

To support the implementation of the governance reforms, one key focus for the Transitional Group Board was to ensure its governance arrangements were fit for purpose. As such the Transitional Group Board adopted a Board Composition Charter (the Charter). The Charter, which was approved by the Transitional Council, set out plans for the Transitional Group Board to meet the principle of creating a new Group Board which would be individually and collectively qualified to lead an organisation of the Group’s size and complexity.

Composition of the Transitional Board
The following directors served on the Transitional Group Board until the conclusion of the AGM on 16 May 2015:

- Ursula Lidbetter (Group Chair and Chair of the Transitional Search Committee)
- Simon Burke (INED)
- Marc Bicknell
- Duncan Bowdler
- Eric Calderwood (Chair of the Transitional Remuneration Committee)
- Martyn Cheatle (Chair of the Transitional Risk and Audit Committee)
- Michael Harriott
- Sir Christopher Kelly (Senior Independent Non-Executive Director (SID))
- Frank Nelson

Following the appointment of Allan Leighton as Independent Chair of the Group, Ursula Lidbetter stepped down as a director and Group Chair on 19 February 2015.

Creation of a new Group Board
The Governance Reforms led to the creation of a Board of directors which would be, individually and collectively, qualified to lead an organisation of the size and complexity of the Group. Accordingly the make-up of the Board is now as follows:

![Board Composition Diagram]

Recognising the contribution made by its members, the Group Board and Members’ Council have initiated the change processes to create a fourth MND seat.
Governance Review continued

Independence
During the Transitional period, the Group did not comply with the Code provision B.1.2 in relation to the Board always having a majority of INEDs. This was due to the Rules of the Group reflecting its co-operative status and the method of directors’ elections. The Transitional Board did, however, support the Code principle that the Board should have the appropriate balance of skills, experience and knowledge and these requirements were appropriately reflected in the Transitional Board composition.

Following the creation of the new Group Board, the Group did comply with this provision. The current Rules require that the Group Board shall always have a majority of INEDs (as defined in the Rules), and, to maintain an effective balance, at least two Member Nominated Directors and one Executive Director. A proposal is being put to members at the forthcoming AGM to change our Rules on Board balance which will mean that (a) at least half of the Board shall be INEDs and (b) at least half of the Board, excluding the Group Chair, shall comprise INEDs and MNDs who are determined by the Board to be independent having regard to the UK Corporate Governance Code.

Independent Chair
The Chair of the Group is Allan Leighton. Allan took up office on 19 February 2015 and, in accordance with Code provision B.1.1, he was determined to be independent on appointment. More details on the role of the Group Chair can be found on page 44.

Senior Independent Director (SID)
Sir Christopher Kelly served as Senior Independent Director of the Group until the conclusion of the Transitional period and, following his successful election by members at the AGM, continued in this office. More details on the role of the SID can be found on page 44.

Independent Non-Executive Directors (INEDs)
In addition to the Group Chair and the SID there are four INEDs. These are Simon Burke, Peter Plumb, Stevie Spring and Lord Victor Adebowale, all of whom are subject to election by members at the AGM on 21 May 2016.

The appointment of INEDs is subject to the recommendation of the Nominations Committee, whose report is found on page 66 of this report. It is the role of the Council Scrutiny Committee to verify the screening process for the Group Chair and the INEDs and to oversee the screening process for the MNDs. The report of the Scrutiny Committee can be found on page 73.

Executive Directors
The Group Chief Executive, Richard Pennycook, currently holds the position of Executive Director on the Group Board. Richard was appointed on 13 January 2015 and was successfully elected by members at the AGM on 16 May 2015. In addition, the Group Board has recently appointed Ian Ellis, the Group’s Chief Finance Officer, as an Executive Director.

Member Nominated Directors (MNDs)
The MNDs ensure that our members have a voice at the heart of the boardroom. As Group Board directors, they have the same responsibilities as other Board directors, including the duty to act in the best interests of the Co-operative Group and its members. The three MNDs elected in 2015 by our members are Hazel Blears, Paul Chandler and Ruth Spellman.

All directors are expected to meet the high standards of competence commensurate with the needs of a business of the scale and complexity of the Group. Additionally, all directors are required to meet the Membership and Eligibility criteria contained within the Rules, key to which is a strong commitment to Co-operative Values and Principles.

What is the Group Board’s responsibility?
The Group Board understands its responsibility to members for the long-term success of the Group, operating within the framework of Co-operative Values and Principles. We monitor performance against the strategy using key financial and non-financial indicators including identified risks. Throughout the year both the Transitional Group Board and the new Group Board sought to adhere to the International Co-operative Alliance Values and Principles, by actively engaging and listening to its members, colleagues and customers, and other stakeholders.

What decisions can the Board take?
The Group Board does not have a formal schedule of matters reserved specifically for its decision, which is required under Code Provision A.1.1; however, the Group’s Rule 43.3 reserves the following matters to the Group Board which cannot be delegated to management:

- Determining a strategy for the Group, consistent with its Purpose and the Values and Principles and meeting the needs of members.
- Overseeing the Group’s business in accordance with the strategy.
- Motivating and retaining an Executive qualified to deliver the strategy.
- Holding the Executive to account in the performance of its duties, taking into account the Council’s views.
- Overseeing a risk and internal audit framework designed to provide adequate assurance regarding the protection of the Group’s assets; the health, safety and welfare of customers, members and colleagues; compliance with all relevant laws and regulations; and the maintenance of the reputation of the Group.

To ensure the smooth running of the business, the Board may delegate specific powers to one or more directors, Board Committees, officers or colleagues, or to any subsidiary. Delegated authorities are laid down in a delegated authorities framework approved by the Board and which is subject to review. The framework was comprehensively reviewed by the Risk and Audit Committee during the year and approved by the Group Board in September 2015.
**Governance Review continued**

**Board meetings throughout the period**
The Transitional Group Board met six times up to the end of the Transitional period on 16 May 2015. Of these meetings, one was called specifically to consider the appointment of the new Independent Group Chair.
The new Group Board met five times from its inception on 16 May 2015.
The table below sets out the frequency and attendance of directors at meetings of the new Group Board from the end of the Transitional period to the end of the reporting period:

<table>
<thead>
<tr>
<th>Director</th>
<th>Date of Appointment</th>
<th>Number of Group Board Meetings Attended</th>
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<tbody>
<tr>
<td><strong>Independent Non-Executive Directors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allan Leighton (Group Chair)</td>
<td>19 February 2015</td>
<td>5(5)</td>
</tr>
<tr>
<td>Simon Burke</td>
<td>-</td>
<td>5(5)</td>
</tr>
<tr>
<td>Sir Christopher Kelly (SID)</td>
<td>-</td>
<td>5(5)</td>
</tr>
<tr>
<td>Peter Plumb</td>
<td>25 June 2015</td>
<td>3(5)*</td>
</tr>
<tr>
<td>Stevie Spring</td>
<td>25 June 2015</td>
<td>5(5)</td>
</tr>
<tr>
<td><strong>Executive Directors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Richard Pennycook</td>
<td>13 January 2015</td>
<td>5(5)</td>
</tr>
<tr>
<td><strong>Member Nominated Directors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hazel Blears</td>
<td>16 May 2015</td>
<td>5(5)</td>
</tr>
<tr>
<td>Paul Chandler</td>
<td>16 May 2015</td>
<td>5(5)</td>
</tr>
<tr>
<td>Ruth Spellman</td>
<td>16 May 2015</td>
<td>5(5)</td>
</tr>
</tbody>
</table>

The number in brackets indicates the number of meetings the director was eligible to attend. Ian Ellis and Lord Victor Adebowale are not included in this table, having been appointed during 2016.

* Unable to attend due to prior commitments before appointment

If a director is unable to attend a meeting, it is the Chair’s practice to seek a satisfactory reason for 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 their iPad. Those unable to attend are invited to submit their views to the Chair in advance of the meeting.

Private sessions of the Board are scheduled and take place at each Board meeting. All directors have open access to the Chair and may request a private meeting.

The biographies of those current directors serving on the Board are set out on pages 38 and 39.

Copies of the letters of appointment for all directors are available to members to view on request to the Group Secretary.

**Board Committees**
The Group Board governs through its Board Committees:

- **Group Board**
  - Remuneration Committee
  - Nominations Committee
  - Risk and Audit Committee

Each of these Committees has a role in ensuring the effectiveness of the Group. The responsibilities of these Committees are set out in each Committee’s report and the respective terms of reference for the Board Committees can be found on the Group’s website at www.co-operative.coop/corporate/investors/governance.

Under the Rules, the Group Board also has the power to delegate authority to ad hoc committees which may be required to consider specific matters from time to time.

The Group Board ensures that its Committees have sufficient resources to undertake their duties. All Group directors have access to all Committee minutes and papers and a report is provided by the relevant Committee Chair at each Group Board meeting as appropriate.

The Risk and Audit Committee report can be found on page 47, the Remuneration Committee report can be found on page 53 and the Nominations Committee report can be found on page 66.

In addition to the main Board Committees, the Group operates Committees in conjunction with the Council such as the Member Nominated Director Joint Selection and Approvals Committee, the Stakeholder Working Group and the Co-op Way Policy Committee.

**Governance through our subsidiaries**
Throughout the period, the Group exercised its oversight role of the General Insurance business through a separately registered society, CIS General Insurance Limited. This entity is regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) and has its own distinct Board and committees.
Governance Review continued

The roles of the Group Chair and the Group Chief Executive

The Group Chair

Ursula Lidbetter chaired the Transitional Board until the appointment of Allan Leighton on 19 February 2015. Ursula had been a non-executive director on the Group Board since 2009 and was previously a Deputy Chair of the Group and Chair of the Food Board.

Code provision A.2.1 states that the roles of chairman and chief executive should not be exercised by the same individual, and a division of responsibilities between these roles should be clearly established and agreed upon by the board. In addition, Code provision A.3.1 states that the chairman should on appointment meet the independence criteria of the Code.

In terms of independence, the Chair of the Transitional Board was not considered independent on her appointment as Chair. Ursula was elected to the Board from the Independent Society Members’ constituency and was appointed Chair in November 2013 as the Board concluded that she was the right person to lead the Group through the critical stages of reform. The composition of the Board at the time made it difficult to appoint a Chair who was completely independent of the Group and it was not required by the Group’s Rules at that time.

This principle is now, however, applied through the Group’s Rules and the Board Composition Charter which provide that the Group Chair shall be independent on appointment and shall be regarded as an Independent Non-Executive Director.

The role of the Group Chair is clearly defined and set out in the terms of appointment. The Group Chair is responsible for leading the Group Board and setting the Board’s agenda together with the Group Secretary (primarily focused on strategy, performance, value creation and professional development).

The Group Chair is expected to promote a culture of mutual respect, openness and debate by facilitating the effective contribution of all directors, as well as ensuring effective communication with members and other stakeholders. Ethical leadership and promotion of the highest standards of integrity, probity and corporate governance throughout the Group, particularly at Board level, is a fundamental responsibility. The Chair has no involvement in the day-to-day running of the Group’s businesses which is formally delegated to the Group Chief Executive; however, the Board Composition Charter envisages that the Chair is expected to become fully engaged in the activities of the Group and consequently is not expected to maintain their independence for the duration of their term.

The Group Chief Executive

The Group’s Rules did not previously allow Executives to sit on the Group Board; however, following changes to the Group’s governance arrangements, the Group Chief Executive, Richard Pennycook, was appointed to the Group Board on 13 January 2015.

The Group Chief Executive has direct responsibility for the Group on a day-to-day basis and is accountable to the Board for the Group’s financial and operational performance. He is responsible for the appointment of the Executive team, with the exception of the Group Secretary who is appointed by the Board.

The key responsibilities of the Group Chief Executive, the Group Executive and of the Group Secretary are set out in the Group’s Rules.

Senior Independent Director (SID)

The primary role of the SID is to provide a sounding board for the Group Chair and for other directors, serving as an intermediary when necessary. The SID is available to directors wishing to raise or escalate issues relating to the Group’s governance, the Board or the Group Chair’s performance and any other issue which cannot conveniently be raised with the Group Chair of the Board. One important responsibility is to be available to the members of the Group and other stakeholders, to obtain a balanced understanding of the issues and concerns of such members and to ensure that the Board is made aware of these views.

The SID is also responsible for conducting the annual appraisal of the performance of the Group Chair.

The Group Secretary

Under the Group’s Rules, the appointment and removal of the Group Secretary is a matter for the Group Board. The Group Secretary reports to the Group Chair and is a member of the Executive by virtue of their office. All directors have access to the advice and services of the Group Secretary.

The Rules reserve certain powers and discretions to the Group Secretary. In particular, the Group Secretary is responsible for advising the Group Chair and the Group Board on all governance matters, ensuring that Board procedures are followed and that there is a good flow of information, facilitating induction programmes for new directors and developing directors’ training and continuing professional development.

Following the implementation of the Governance Reform Project, Claire Davies stepped down from the role of Group Secretary on the conclusion of the AGM on 16 May 2015. Harry Baines was appointed as Interim Group Secretary following the AGM and held this role until 1 July 2015 when Debbie Adams took up the position. Debbie Adams subsequently left the Group on 31 December 2015 and consequently the Group Board appointed an Interim Group Secretary, Helen Grantham.
Governance Review continued

Term of office
INEDs and Executive Directors are appointed for a two-year term and are subject to election by members at the first AGM following their appointment. They are then subject to re-election by members at each second AGM.

With the exception of the 2015 elections, all MND seats are also for a period of two years. Each MND seat is subject to re-election by members every two years.

With the exception of Executive Directors, the maximum term of office any director may serve is six years.

2015 elections
At the AGM on 16 May 2015, the following directors were successfully elected by members:

- Richard Pennycook – Executive Director
- Allan Leighton – Independent Non-Executive Director
- Sir Christopher Kelly – Independent Non-Executive Director

A key part of the new Governance arrangements for the Group was the inclusion of three Member Nominated Directors on the Group Board. During the first half of 2015, three candidates were put forward for these inaugural roles for election by our 2.7 million eligible members. The term of office of these three seats were two years for two of the seats and one year for one seat. Consequently, the following directors were elected:

- Paul Chandler – two-year term
- Ruth Spellman – two-year term
- Hazel Blears – one-year term

Elections in 2016
The Nominations Committee is responsible for leading the appointment and nomination process for Group Board directors. There were no directors due for re-appointment during the period, however, the following directors will be put to members for election at the 2016 AGM:

- Simon Burke (INED)
- Peter Plumb (INED)
- Stevie Spring (INED)
- Lord Victor Adebowale (INED)
- Ian Ellis (Executive Director)

In addition, Richard Pennycook will be put forward for re-election by members. Richard was elected by members at the AGM in 2015 and, although not required by Rule, Richard has committed to put himself forward for election at each AGM.

Election of the MNDs
Following feedback from our members on the 2015 MND selection process, the Group Board agreed plans with the Council for a new process for selecting future MND candidates. In recognising the importance and success of the MNDs on the Group Board, the creation of a fourth MND position was also agreed.

During the second half of the year, therefore, the Group Board and Council established a joint task group, which was Council-led and included representatives from the Group Board, Council and Independent Co-operative Societies. The role of this joint task group was to review the MND election process and make recommendations. The key elements of the new process were:

- a clearer and simpler application and sifting process to encourage more participation in elections;
- a structured assessment event run jointly by the Board and Council, with advice from a professional search firm;
- a joint Board and Council agreement on final selection of candidates to go forward on the ballot paper; and
- the creation of an Academy that will develop members in the skills and understanding needed to become a Board director, in order to build a talent pool of future candidates.

A new joint Board and Council Committee was created in 2015 (the MND Joint Selection and Approvals Committee) to lead on future MND election processes.

Nominations for the fourth MND seat and the retiring seat closed at the end of December 2015 resulting in a number of strong and suitably qualified candidates. There were also a number of applicants who were suitable to join our Academy. Election papers will be issued to eligible members in mid-April 2016, with the result of the MND elections being announced at the AGM on 21 May 2016.

Engagement and relations with our members
The Code requires that boards should ‘have a dialogue with shareholders based on the mutual understanding of objectives’.

The Governance Reforms led to the establishment of our Members’ Council, which is a body comprising 100 elected members, to represent members and to act as guardian of the Co-operative’s Purpose, Values and Principles, together with the Society’s Constitution, with the power to hold the Group Board to account.

The Group Board is committed to regular dialogue with the Members’ Council. Questions raised by the Council are responded to by Group management and where appropriate the Group Board.

There is also a regular flow of information at all levels of the business to the Council and the Council’s committees.
Members of the Group Board attend Council meetings to listen and respond to questions from Council members. In addition, the Group Board established a Stakeholder Working Group (SWG). The SWG comprises four representatives from the Group Board and four from the Council. Its purpose is to provide a forum for co-ordination and discussion between the Group Board and the Council on topical subjects of interest to members.

In terms of engagement with the wider membership, whilst this is the main role of the Council, the Group Board considers that the move to One Member One Vote reaffirms the importance of direct member participation in the affairs of the Group.

Members entitled to attend Group General Meetings may vote, or appoint a voting representative to vote on their behalf, on motions for resolution at Group General Meetings. Motions can be put to a Group General Meeting by the Board, the Council, four qualified Independent Society Members (ISMs) or by 100 eligible members. The Group’s federal relationship with the ISMs is now undertaken through a new federal structure, Federal Retail and Trading Services Limited (FRTS). FRTS was incorporated in 2014 and is 75% owned by the Group. The remaining 25% is split between the seven largest ISMs. It is chaired by an Independent Chair – John Coombs.

Conflicts of interest

The Group Board has in place a Board Conflicts Toolkit. This Toolkit provides a practical framework to manage situations which may involve a director having a conflict of interest.

There are specific provisions in the Group’s Rules about how conflicts should be dealt with and how interests should be declared. Consistent with their legal obligations, Group directors have a duty to avoid conflicts of interests. Prior to appointment, potential conflicts of interest are disclosed and assessed to ensure that there are no matters which would prevent that person from taking on the appointment. The Group Board has considered the current external appointments of all directors which could give rise to a situational conflict and has authorised potential conflicts where appropriate.

Conflicts are also actively managed at and in advance of Board meetings. Actions include directors being excluded for certain items and/or not being entitled to vote on that matter. If a director has an interest in a matter, they receive redacted copies of minutes relating to that item.

Directors’ and Officers’ liability insurance

Throughout the year, the Group has purchased and maintained Directors’ and Officers’ liability insurance cover in respect of legal action against its directors and officers in relation to Group business. The Group also grants an indemnity to Group directors and the Group Secretary in respect of certain liabilities that may be incurred in the discharge of their function in office from time to time.

Board effectiveness

Under the Group’s Rules the Nominations Committee is responsible for conducting an annual formal and rigorous evaluation of the Board’s performance. Details on how this was conducted are in the Nominations Committee report on page 66.

Independent professional advice and Board support

All directors have unrestricted access to the Group Secretary, Group Secretariat and Executives within the Group. Directors may also take independent professional advice, at the Group’s expense, when furthering their duties under appropriate procedures and guidelines set from time to time.

Annual General Meeting

The AGM is held and conducted in accordance with the Co-operative Community and Benefit Societies Act and the Group’s Rules. Participation in and attendance at the AGM is open to eligible members of the Group.

Due to the federal nature of the Group, the number of votes for each ISM is calculated based on the amount of trade each ISM conducts with the Group. To facilitate this, therefore, votes cast at the AGM are usually cast on a weighted voting poll.
Introduction from the Committee Chair

It will come as no surprise that 2015 was an active year for the Risk and Audit Committee. The extent of change taking place in the Co-op creates significant challenges in maintaining a strong control environment, monitoring risk, and achieving good levels of compliance. In addition, in common with other parts of the organisation, we had to address an inheritance which needed updating, refocusing and in some cases wholesale change. So in carrying out our work this year we have been particularly mindful of the IT infrastructure, the state of the compliance culture in the organisation, and the simple breadth and scale of the change programmes underway. All of these will remain a strong focus for us.

Key milestones for us this year have been:

- Appointment of new heads of Internal Audit and of Risk for the Group.
- Complete overhaul of the Internal Audit team, creating an organisation capable of executing a comprehensive and thorough programme of audit and improvement of the control environment.
- New risk mapping, dashboards, and other monitoring tools.
- Start of a very substantial programme to overhaul our IT and data security systems across the Group, aimed at achieving fit-for-purpose systems, strong IT controls, resilient architecture, and strong security over our data; all of which is being closely monitored and reviewed by the Committee.
- A successful, competitive tender for the external audit, resulting in a recommendation to members to appoint Ernst & Young LLP as the new auditors with effect from 2016.
- A plan to refresh our auditing of sustainability standards across the Group.
- Renewed focus on health and safety in our operations, based on comprehensive risk assessments and reviews of compliance across the Group, which we are reviewing routinely at the Committee.

Our sense is that a good start has been made in addressing the wide range of work to be done in bringing our standards up to where we want them to be. We will be busy over the coming years in seeing this programme through. Our work in this respect forms part of the Rebuild plans for the Co-op, which cover everything from business performance, to investment in new infrastructure and corporate governance.

The following pages of this report describe the Committee’s 2015 activities in more detail.
Report of the Risk and Audit Committee continued

Membership and attendance

Watching over the integrity of financial reporting and effectiveness of risk management is essential in any large organisation. In order to perform this role, the Risk and Audit Committee was established on 16 May 2015, replacing the Transitional Risk and Audit Committee. Until the conclusion of the Group’s Annual General Meeting (AGM) on 16 May 2015, the following directors served on the Transitional Risk and Audit Committee - Martyn Cheatle (Chair), Marc Bicknell, Simon Burke and Duncan Bowdler. The table below lists the members and attendance at the Risk and Audit Committee.

<table>
<thead>
<tr>
<th>Committee Member</th>
<th>Date of Appointment</th>
<th>Number of Meetings Attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simon Burke (INED, RAC Chair*)</td>
<td>16 May 2015</td>
<td>2 (2)</td>
</tr>
<tr>
<td>Hazel Blears (MND)</td>
<td>16 May 2015</td>
<td>2 (2)</td>
</tr>
<tr>
<td>Paul Chandler (MND)</td>
<td>16 May 2015</td>
<td>2 (2)</td>
</tr>
</tbody>
</table>

The number in brackets denotes the number of meetings the individual was eligible to attend.

* Interim Chair of the Risk and Audit Committee, confirmed in post in June 2015
INED - Independent Non-Executive Director
MND - Member Nominated Director

As recommended by the UK Code on Corporate Governance ("the Code"), the Committee had at least three independent directors serving as members. The Board considers that Simon Burke’s relevant and recent financial experience qualifies him for his position as Chair of the Committee. Additionally, two MNDs – Hazel Blears and Paul Chandler – were appointed. With members’ interests in mind, they bring objectivity and independent scrutiny to bear when reviewing the Group’s business systems, operations and financial probity.

Each Committee meeting is attended by the Chief Finance Officer (CFO), Director of Group Internal Audit, Chief Risk Officer, Corporate Finance Director and the external auditors. Other key colleagues may attend by invitation. The external auditors attended all Committee meetings in the year. Additionally, the Committee met the internal and external auditors privately, giving them the opportunity for discussion without management being present.

What the Committee does

Working on behalf of the Board of directors, the Committee is responsible for reviewing and making recommendations in the following areas:

- the integrity of the Group’s annual report and accounts and other formal announcements relating to its financial performance;
- the annual report’s fairness, balance and clarity;
- the effectiveness of the Group’s system of risk management and internal control, including an annual review of the effectiveness of processes and whistleblowing;
- the independence and appointment of the external auditor, including approval of its fees and a review of its effectiveness;
- the effectiveness of the Internal Audit function;
- the Group’s compliance with the Grocery Supply Code of Practice (GSCOP); and
- an annual review of the management of the Group’s pension schemes.

How the Committee operates is described in more detail in its terms of reference. They are available at:

www.co-operative.coop/corporate/investors/governance/risk-and-audit-committee/

In 2015, the Committee’s main activities were to:

- consider the appropriateness of the published financial information, including the annual and interim reports and the significant judgements and assumptions made;
- monitor progress with the Risk Improvement Plan implemented in response to the Independent Governance Review undertaken by Lord Myners (May 2014) and the Independent Report into Governance and Risk undertaken by Grant Thornton (June 2014);
- review the effectiveness of the risk and control systems, including the Internal Audit department’s work, its plans and reports;
- review the Risk Dashboard and discuss with management its handling of specific risk topics;
- approve changes to the Delegation of Authority List;
- review the Grocery Supply Code of Practice Annual Compliance Statement;
- conduct a full external audit re-tendering process and recommend the appointment of Ernst & Young LLP (described in more detail on page 50);
- check the annual review of the Group’s pension schemes;
- monitor reports on whistleblowing; and
- oversee the adherence to Health & Safety policies and standards.

Regular reports were received from KPMG and its representatives were consulted during each meeting.
Report of the Risk and Audit Committee continued

**Significant issues relating to the financial statements**

When reviewing the 2015 financial statements, the Committee considered the following key areas of judgement. In all cases, it discussed them with management and the external auditor:

<table>
<thead>
<tr>
<th>Area of focus</th>
<th>What was done</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Going concern</strong></td>
<td>The Committee noted the key considerations so that it could judge whether to prepare the Group’s accounts on a ‘going concern’ basis. These included an analysis of banking covenants and headroom between projected cash flows for the Trading Group and the banking facilities available to the Group, as well as the appropriateness of ‘going concern’ status for CISGIL and CBG/CFSMS and a restructuring of Co-operative Banking Group.</td>
</tr>
<tr>
<td><strong>Accounting for The Co-operative Bank (‘the Bank’)</strong></td>
<td>Over the year, the Committee considered reports which illustrated the sensitivity of assumptions around the accounting judgements made by management on the impairment charge which reduced the Group’s investment in the Bank. In addition they considered the approach taken to the Bank’s share of the Pace scheme.</td>
</tr>
<tr>
<td><strong>Impairment – carrying value of goodwill, property, plant and equipment</strong></td>
<td>The Committee reviewed the results of management’s annual impairment review, and discussed the key judgements and assumptions underpinning the calculations. The discount rate had been benchmarked against the market and analysed externally.</td>
</tr>
<tr>
<td><strong>Provisions including onerous lease (see note 24 in the financial statements)</strong></td>
<td>Key management judgements regarding material provisions were reviewed by the Committee. It checked these judgements with external experts, which supported them. The provisions were assessed for consistency of approach compared with previous years, and against the Group’s accounting policies.</td>
</tr>
<tr>
<td><strong>Pensions (see note 15 in the financial statements)</strong></td>
<td>The Committee assessed the key assumptions which underpinned the pensions calculations. Advice provided by internal and external actuaries, including market benchmarking, was also reviewed. This gave confidence that the assumptions adopted had been consistently applied year on year.</td>
</tr>
<tr>
<td><strong>Supplier income</strong></td>
<td>The Committee received a detailed paper about the policy and application of the recognition of supplier income. Work undertaken by Internal Audit on the treatment of supplier income gave the Committee further assurance.</td>
</tr>
<tr>
<td><strong>Inventory</strong></td>
<td>The Committee received a paper that outlined the methodology for the calculation of inventory and noted refinements to the process.</td>
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Report of the Risk and Audit Committee continued

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**Review of the Committee’s effectiveness**

As the Risk and Audit Committee has only recently been established, it has not yet performed a review of its effectiveness. It plans to conduct a review in the next six months, as it is required to each year. When selecting its new members, however, the Committee took into account the requirements of the Code. This ensures that the right mix of skills, experience and knowledge are in place to provide the depth of independent challenge required. In addition, both newly appointed MNDs undertook a full induction programme.

**External audit activities**

The Code states that audit committees should have primary responsibility for recommending the appointment, re-appointment and removal of the external auditor, and for assessing the effectiveness of the external audit process.

KPMG LLP are the Group’s auditors. They also provide the Committee with relevant reports, reviews, information and advice throughout the year. All of these activities are set out in their engagement letter.

**Independence, objectivity and fees**

The external auditor must be judged to be independent for the audit to be objective. The Group, therefore, has an External Auditor Independence Policy, which is designed to maintain the independence and objectivity of the external auditor. In addition, the Group has a policy regarding the appointment of former KPMG employees, and the approach to be taken when using the external auditors for non-audit work.

The Committee must pre-approve services above certain cost thresholds, which it sets. In addition, external auditors cannot perform the following tasks:

- Bookkeeping or other services related to the accounting records or financial statements.
- Financial information systems design and implementation.
- Actuarial services.
- Internal audit outsourcing services.
- Management functions or human resources.
- Any other services that the Committee may determine.

The policy was last reviewed by the Committee in 2013. It has been reported upon, in respect of non-audit fees, at each of the Risk and Audit Committee meetings during the year. The Committee is satisfied that the non-audit services provided did not prejudice the external auditor’s independence.

Details of the amounts paid to the external auditors during the year for audit and other services are set out in note 3 of the financial statements.

**Effectiveness and appointment of auditors**

To fulfil its responsibilities in respect of the independence and effectiveness of the external auditor, the Committee reviewed KPMG’s:

- terms, areas of responsibility, duties and scope of work as set out in the engagement letter;
- audit strategy for the Group;
- detailed findings, including a discussion of any major issues that arose during the audit;
- performance, through an internal survey of effectiveness; and
- letter confirming its independence and objectivity.

**External audit tender**

The Group’s policy is to tender the external audit every five years and the external audit was last put out to tender in 2011. The Risk and Audit Committee conducted a tender process for a new external auditor during the year. The process was initiated in November 2015 and concluded in January 2016.

The Risk and Audit Committee has recommended to the Board that Ernst & Young LLP (EY) be appointed as the Group’s external auditor. The Board accepted this recommendation and EY will be put forward for election by members at the 2016 AGM. The Risk and Audit Committee would like to thank KPMG for their contribution to the Group over the years.

The Chair of the Risk and Audit Committee created and led the audit tender team. It comprised the Group CFO, the Director of Group Internal Audit and the Group Accounting Director. Five firms were invited to tender, one of which was a ‘mid-tier’ audit firm.
In order to arrive at the recommendation, two of the audit firms met with the following Co-op representatives:

- the Chair of the Risk and Audit Committee;
- members of the Executive including the CFO;
- senior finance and IT executives from across the Group; and
- the Director of Group Internal Audit and the Chief Risk Officer.

The feedback from the meetings, as well as the Request For Proposal responses, were reviewed in detail by the audit tender team and summarised for the Committee.

The short-listed firms then presented their proposed audit approach to all members of the Risk and Audit Committee and the audit tender team, followed by a ‘question and answer’ session. Following each meeting, the Group’s representatives discussed the presentation. It reviewed content, the view presented, answers to questions and the strengths and weaknesses of each team. At the end of the meetings, the audit tender team had an extensive debate about the shortlisted firms.

**Internal audit**

During 2015, the new Director of Group Internal Audit developed and delivered a transformation plan for Internal Audit (IA). An outcome of this is that IA has been re-purposed, reorganised and its status within the Group reset.

IA is an independent appraisal function that derives its authority from the Group Board through the Committee. Its primary role is to provide professional, objective assurance while providing insightful improvements to governance, risk and control.

The Committee reviewed and approved the scope of the IA work programme. At each meeting, the Committee receives a report from the Group Director of IA on:

- the work of IA and progress against plan;
- management responses to the issues identified in the audit reports issued; and
- the timeliness of management’s remediation activities.

During the year, the Committee reviewed IA reports covering key processes, systems and controls and IT projects and programmes. The reports have covered different areas in the Group.

**Internal control**

The Group Board has overall responsibility for the system of internal controls. The internal control framework used by the Group is based on the globally recognised COSO model, which has five key control component areas. These are: Control Environment; Risk Assessment; Control Activities; Information and Communication; and Monitoring Activities.

The Committee, on behalf of the Group Board, is responsible for reviewing the effectiveness of the system of internal controls. The system of control is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can only provide reasonable and not absolute assurance against misstatement or loss.

Each Group Executive member was asked to review the effectiveness of internal control for his/her area of responsibility, and to self-certify the results of the review under three headings:

- Description of the key elements of internal control operated.
- Notes of the key improvement initiatives being undertaken.
- Representation that the Executive member and his/her management team has reviewed the systems of risk and internal control for the half year and the full year ended 2 January 2016.

IA’s validation of, and the Committee’s review of the Executive’s self-assessments, form a key part of the annual review of effectiveness of the systems of risk and control.

The internal control framework contains, but is not limited to, the following key elements:

**Control environment**

The Group’s control environment is designed to create an attitude of taking acceptable business risk within clearly defined limits. The control environment includes:

- An organisational structure with clear lines for responsibility, delegation of authority and reporting requirements, supported by a performance management system that drives the achievement of business objectives.
- Co-ordinated activity across the whole Group through executive management meetings, independent committees to subsidiary boards, transformation steering groups and other relevant forums.
- Defined policies for capital and revenue expenditure. Larger capital and revenue expenditure requires Group Board authorisation.
- A Code of Business Conduct covering relations with customers, members, colleagues, suppliers, community and competitors. This code provides procedures to allow any colleague to report, in confidence, suspected serious malpractice. An anti-fraud policy, with guidance, further supports this code.

**Risk assessment**

Assessing and managing risk is fundamental to safeguarding our members’ interests, protecting our reputation, complying with regulatory standards and achieving our business objectives.

The Group Board and executive management are responsible for identifying and evaluating the Co-op’s principal business risks. They must implement and maintain systems for managing those risks in an efficient and effective manner.

To enable this, business areas and change programmes maintain risk registers that identify the likelihood and impact of risks within their areas, and the actions being taken to manage them. Risk assessments are updated and reported to Group Risk. Details of the Group’s key risks can be found on pages 33 to 35.
Control activities
The Group's control procedures are designed to ensure that risks are appropriately managed. This includes risks around the completeness and accuracy of accounting for financial transactions, as well as for limiting the potential exposure to loss of assets or fraud. Procedures and reference information are maintained regarding the Group's Rules, accounting policies and procedures, insurance, colleagues and Code of Business Conduct. These are issued to appropriate management.

Information and communication
Communication takes place with all key stakeholders through a variety of media. Colleagues receive and provide information on strategy and objectives through their reporting lines and a formal performance measurement process. Colleagues also receive regular business updates from Group Executives and senior managers electronically via the internal intranet site, by conference calls and through face-to-face briefings.

Monitoring
The Group adopts the ‘three lines of defence’ approach to assuring its activities. The operation of the system of internal control is the responsibility of line management. Various functions, including Group Risk, monitor and check compliance. IA provides independent assurance.

The Committee considers that there have been no material losses or contingencies that have not been disclosed.

Whistleblowing procedure
In line with best practice and to ensure that the Group operates within the highest ethical standards and its Values and Principles, a whistleblowing procedure, known as ‘Speak Up’, has been in operation during the year. The policy, managed by an external independent provider, allows colleagues to raise concerns about business practices confidentially should they not wish to talk to someone within the Co-op. This operation has also been extended to include all third-party organisations which trade with the Group, to ensure any malpractice or misconduct of Group colleagues can also be reported as part of the Group’s anti-bribery controls.

The whistleblowing policy is included in the Code of Business Conduct, which is available on the Group’s intranet site and is also on the Group’s corporate website.

The Committee considers the whistleblowing procedures to be appropriate for the size and scale of the Group.
Remuneration Report

Committee Chair’s statement

Introduction
I am pleased to present the Remuneration Report for 2015 on behalf of the Remuneration Committee. This is my first report since becoming Chair of the Committee in June 2015.

The Committee has been conducting a thorough review of future executive reward in the light of feedback from members about the way in which their money is spent and the move from Rescue to Rebuild.

Increase in pay for colleagues in our stores
An important change for the Co-op in 2016 will be a further increase in hourly pay rates for our colleagues in the frontline of our business, serving customers in our stores. As the result of a two-year pay deal last October, I am pleased to say that the majority of our colleagues are already paid above the new National Living Wage coming into effect in April 2016. All colleagues who are not yet paid at this rate will have their pay increased to it in April. The standard rate for new starters in our food stores will also be increased by 1.8% then.

Structure of this report

This report is in two parts:
- Part I is the Executive Remuneration Policy which the Committee is developing for executive pay.
- Part II is the Annual Report on Remuneration, which describes how the existing policy was applied in 2015 and how the Committee is applying it in 2016.

Members will be asked to vote twice at the Annual General Meeting (AGM). In the first vote you will be asked to accept the report on remuneration. In the second you will be asked to approve the policy. Both votes are advisory. While technically not binding, in the event of a vote against the remuneration policy, the Board has committed to consult with a sub-committee of the Council about amendments to the policy, with a view to bringing an amended version forward for another vote at the 2017 AGM. In the meantime, the existing policy will remain in force until it is amended.

The Committee would welcome your support in the votes on the Executive Remuneration Policy and the Annual Report on Remuneration at the AGM.

I recommend the Report and Policy to you.

Stevie Spring
Chair of the Remuneration Committee
Remuneration Report continued

I Executive remuneration policy

In 2013-14 when the Co-op was facing a period of crisis, the Transitional Remuneration Committee put in place remuneration arrangements to ensure that we had the appropriate team to help the Co-op deal with some profound financial and operational challenges. The objective of the current review is to ensure that we have a policy fit for the Rebuild phase of our recovery, and beyond, which better reflects our Values and Principles as a co-operative.

Some changes have already been made. Much work remains to be done.

Reward philosophy

The Co-op is committed to a reward strategy which:

- is fair;
- allows us to compete for skills and talent and to encourage and reward high performing colleagues; and
- reflects our Purpose and Values as a co-operative in spending members’ money.

This is supported by our reward principles:

- A median pay position against relevant, competitive benchmarks for fully competent performance;
- Incentive plans which clearly reward both performance against stretching targets and commitment to the Co-op Values and Principles;
- A benefit package which will be aligned to the Co-op Values and Principles.

Changes in the policy already agreed and implemented: (i) executive pensions

The most significant change in the policy agreed in 2015 was that senior executives’ pension arrangements have been aligned with those of other colleagues.

Following a consultation with colleagues, the Board decided in 2015 that the defined benefit pension scheme should be closed – not an easy decision, but one which was justified for the long-term sustainability of the Co-op in the interests of members and colleagues. From 29 October 2015, all colleagues have had the opportunity to build up a defined contribution pension, with employer contributions of up to 10% of base salary. The previous maximum employer contribution had been 8%.

To keep it in line with all other colleagues, the executive pension benefit allowance of 16% of base salary has been reduced to 10%.

Changes in the policy already agreed and implemented: (ii) new performance metrics and targets for incentive plans

A new, more focused and more uniform approach to performance assessment was introduced for the 2015 Annual Incentive Plan (AIP). Executives and other colleagues who participate in the plan are each assessed on both business performance and personal performance.

Business performance targets are generally based on budgeted profit for the year.

For the 2015-17 Long Term Incentive Plan (LTIP), the most significant measure (weighted 40% of the potential incentive) is the net debt:EBITDA ratio, the aim being to reduce the debt burden to the Co-op as much as possible but not at the expense of profit. Additional measures are colleague engagement (25%), membership spend (25%) and brand health (10%). We will continue to monitor the LTIP for the most senior leaders in the organisation to ensure that it is both market competitive and consistent with the other elements of our reward philosophy.

Changes in the policy for future implementation: (i) rebalancing of executive salaries

During the Rescue period, executive packages became heavily weighted towards fixed, guaranteed pay. All new Executive packages will be based on a lower proportion of fixed to variable pay, and remaining Group Executive packages will be rebalanced in this way at the end of the Rebuild phase. In the meantime, no base salary increases were awarded to the Group Executive in 2015. No increases are planned in 2016.

Changes in the policy for future implementation: (ii) reduction in Group Executive’s notice period

All future appointees to the Group Executive will have a six month notice period. The existing members of the Group Executive have been asked to reduce their current 12 month notice period to six months with effect from 1 July 2016. This change is being finalised.

Changes in the policy for future implementation: (iii) reduction in Chief Executive's pay and notice period

At his request, and with the full support of the Board, the Chief Executive has agreed a very large reduction in his own remuneration package. The key changes are:

- Base salary to reduce from £1,250,000 to £750,000 with effect from 1 July 2016.
- Maximum Annual Incentive Plan award to be set at 40% of base salary, compared to 100% currently, with effect from the 2017 AIP.
- Maximum Long Term Incentive Plan payment of 50% of base salary, compared to 100% currently. This will take effect from the LTIP cycle starting in 2017.

Combined with the reduction in pension contribution, the effect of these changes will be to reduce the Chief Executive’s maximum total remuneration by more than 60%. Richard Pennycook has also agreed to reduce his notice period from the Society to six months, from the current 12 months.

The first chart on the following page shows the potential remuneration package for the Chief Executive in 2016 under the current policy. The Chief Executive was the only executive appointed to the Board in 2015. Ian Ellis, the Group’s Chief Finance Officer, has been appointed to the Board during 2016.
The charts show the following performance scenarios:

- ‘Minimum’ is the remuneration due if none of the performance based elements payout.
- ‘Target’ shows the total package where the AIP and LTIP awards both pay at the target level, being the amount payable for target performance. The target AIP payment is 50% of salary and the target LTIP opportunity is 50% of salary.
- ‘Maximum’ shows the total package where the AIP and LTIP both pay at the maximum level which is twice the target opportunities, being 100% of salary for both.

### Potential Remuneration of Chief Executive under present policy

<table>
<thead>
<tr>
<th>Fixed pay including pension and benefits</th>
<th>AIP</th>
<th>LTIP</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>£0</td>
<td>£500,000</td>
<td>£1,000,000</td>
<td>£3,889,000</td>
</tr>
<tr>
<td>£500,000</td>
<td>£1,500,000</td>
<td>£3,000,000</td>
<td>£4,500,000</td>
</tr>
<tr>
<td>£1,000,000</td>
<td>£2,000,000</td>
<td>£4,000,000</td>
<td>£5,200,000</td>
</tr>
<tr>
<td>£1,500,000</td>
<td>£2,500,000</td>
<td>£5,100,000</td>
<td>£5,700,000</td>
</tr>
<tr>
<td>£2,000,000</td>
<td>£3,000,000</td>
<td>£6,200,000</td>
<td>£6,400,000</td>
</tr>
<tr>
<td>£2,500,000</td>
<td>£3,500,000</td>
<td>£7,400,000</td>
<td>£7,600,000</td>
</tr>
<tr>
<td>£3,000,000</td>
<td>£4,000,000</td>
<td>£8,600,000</td>
<td>£8,900,000</td>
</tr>
<tr>
<td>£3,500,000</td>
<td>£4,500,000</td>
<td>£9,800,000</td>
<td>£10,100,000</td>
</tr>
<tr>
<td>£4,000,000</td>
<td>£5,000,000</td>
<td>£10,900,000</td>
<td>£11,100,000</td>
</tr>
</tbody>
</table>

- **Minimum** 10%
- **Target** 54%
- **Maximum** 75%

- **Total** 32%

The second chart is based on the revised reward package that will begin to take effect from July 2016. The target AIP payment is 20% of salary and the target LTIP opportunity is 25% of salary. The chart does not show the effect of any interim arrangements between reward packages.

### Potential Remuneration of Chief Executive under new arrangements

<table>
<thead>
<tr>
<th>Fixed pay including pension and benefits</th>
<th>AIP</th>
<th>LTIP</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>£0</td>
<td>£500,000</td>
<td>£1,000,000</td>
<td>£1,514,000</td>
</tr>
<tr>
<td>£500,000</td>
<td>£1,000,000</td>
<td>£2,000,000</td>
<td>£3,514,000</td>
</tr>
<tr>
<td>£1,000,000</td>
<td>£1,500,000</td>
<td>£3,514,000</td>
<td>£5,514,000</td>
</tr>
<tr>
<td>£1,500,000</td>
<td>£2,000,000</td>
<td>£5,014,000</td>
<td>£7,514,000</td>
</tr>
<tr>
<td>£2,000,000</td>
<td>£2,500,000</td>
<td>£6,514,000</td>
<td>£9,514,000</td>
</tr>
<tr>
<td>£2,500,000</td>
<td>£3,000,000</td>
<td>£8,014,000</td>
<td>£11,514,000</td>
</tr>
<tr>
<td>£3,000,000</td>
<td>£3,500,000</td>
<td>£9,514,000</td>
<td>£13,514,000</td>
</tr>
<tr>
<td>£3,500,000</td>
<td>£4,000,000</td>
<td>£11,014,000</td>
<td>£15,514,000</td>
</tr>
<tr>
<td>£4,000,000</td>
<td>£4,500,000</td>
<td>£12,514,000</td>
<td>£17,514,000</td>
</tr>
</tbody>
</table>

- **Minimum** 10%
- **Target** 71%
- **Maximum** 95%

- **Total** 25%

### Policy for the recruitment of new members of the Group Executive

The remuneration package for any new executive will be set using the same policies that apply to current executives, benchmarked externally according to role. This means that the Committee would seek to set the total package at the middle of the individual’s relevant market for fully competent performance.

The following additional items of remuneration may be considered when recruiting an executive:

- **Relocation.** The Committee will consider contributing towards relocation costs for an executive who would need to move closer to their place of work or would stay close to their place of work during the working week. When applicable, this is provided under a relocation policy that seeks to provide appropriate financial assistance based on the nature of the move and individual circumstances, without encouraging people to spend extended periods away from family.

- **Forfeiture of previous incentive type awards.** Under exceptional circumstances and at its absolute discretion, the Committee will consider compensating a new executive for variable remuneration awards lost from a previous employer. The exact type and amount of compensation will vary depending on the variable remuneration plans operated by the previous employer. Any payments agreed under this policy will not be more generous than, and will mirror as far as possible, the terms of the forfeited awards and will be subject to performance criteria.

### Entitlements of executives on leaving the Co-op

In the event of termination, the Committee will review and approve all payments due to an executive with the aim of minimising the costs to the Co-op. Payments will be based on contractual and statutory obligations, including legal fees. Where negotiated, a contribution towards career support may be made.

The notice period in newly recruited executives’ service contracts will not exceed six months. Current executive contracts can be terminated by a maximum of one year’s notice. Where it is deemed commercially beneficial for an individual to remain under a contract of employment with the Co-op but not to work their notice, they are placed on garden leave and only contractual payments are made. Where an individual is not required to work their notice and receives a payment in lieu, the Co-op is only obliged to pay base salary. The payment in lieu would not include any benefits or incentives.

The Committee can agree that the salary in lieu of the whole or part of the notice period can be paid in instalments. The Society has the right to reduce the payments of salary in lieu of notice by the amount of income from a new role.

The Committee has discretion to determine whether, and to what extent, a leaver is allowed to retain LTIP awards they hold and their eligibility for AIP in respect of the period they have served. In exercising its discretion the Committee will take account of the reasons for leaving, performance and contractual commitments.
Comparison of remuneration policies for the Group Executive and wider colleagues

For base salary, benefits and pension, the same principles are applied to all colleagues. The stated policy is that total remuneration for fully competent performance should be at the middle of an appropriately defined basket of external comparators, which will necessarily vary by role. That policy will apply to all colleagues.

The Annual Incentive Plan currently allows executives to earn a higher proportion of salary as bonus than other colleagues in the plan. The Co-op is working towards all colleagues being eligible to participate in an incentive scheme.

Those at senior management grades able to influence long-term performance are the only colleagues who are eligible for Long Term Incentive Plan awards. The level of opportunity varies by grade, with those in the Group Executive able to earn the highest amounts.

Claw back provisions apply to both the AIP and LTIP plans. These enable the Committee to recoup part or all of a payment under these arrangements if the Co-op’s results were materially misstated, should have been assessed materially differently, or where an individual ceases to be employed by the Co-op as a result of misconduct. Malus provisions allow, under specific circumstances, that the Committee can decide that an award which has not yet vested should lapse.

Fees for non-executive directors

Fees for non-executive Board directors are determined by the Non-Executive Fees Committee of Council. Fees are described in the section: Annual Report on Remuneration on page 62.

Summary of Executive Reward Policy

The current Executive Reward Policy is summarised below.

<table>
<thead>
<tr>
<th>Element</th>
<th>Link to strategy</th>
<th>Summary and operation</th>
<th>Maximum opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed elements</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Base salary | To set a level of reward for performing the core role. | The aim is for total target compensation to be at the middle of the market which the Committee considers relevant for fully competent performance. | There is no formal maximum salary. Typically, salaries are reviewed annually. When reviewing executive salaries, the Committee will take account of:  
- Experience and personal and business performance.  
- Appropriate market data with the aim of total remuneration being at the middle of the most appropriate and relevant market for fully competent performance.  
- Increases for the wider colleague population, which will influence the awards to the executive, unless there are exceptional circumstances. |
| Benefits | To offer a benefits proposition to attract and retain talented leaders. | The benefits provided to the Group Executive will be in line with normal market practice and could include a car or car allowance, fuel in certain cases, time-limited relocation assistance, healthcare cover and life cover. The Group Executive are also able to take advantage of benefits offered to all colleagues, for example childcare vouchers and discounts on certain products and services. | These benefits are provided in accordance with regularly updated policies that are consistent with market practice. Overall they will represent a small proportion of the total compensation. |
| Pension | To provide the same level of pension benefits to all colleagues across the Co-op. | The following options are available:  
- Defined Contribution employer pension contributions of up to 10% of salary (16% prior to 29 October 2015).  
- Cash alternative of up to 10% of salary (16% prior to 29 October 2015).  
- Prior to 29 October 2015, Defined Benefit pension accrual was available if two years’ service had been completed. | The maximum Society contribution is 10% of salary. Payable into the scheme or as a cash alternative. |
**Remuneration Report** continued

<table>
<thead>
<tr>
<th>Element</th>
<th>Link to strategy</th>
<th>Summary and operation</th>
<th>Maximum opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Incentive Plan (AIP)</td>
<td>To motivate and incentivise achievement of performance measures.</td>
<td>The Group Executive will be eligible for a payment under an AIP agreed by the Committee. The performance measures and targets for each AIP cycle will be set at the start of each year. Payments will be based on a combination of business and individual performance. Payments made under the AIP are subject to the claw back provisions.</td>
<td>For 2016, the AIP opportunity for the Group Executive is unchanged at 50% of salary at target performance (maximum pay-out will be 100% of salary at stretch performance).</td>
</tr>
</tbody>
</table>

Note 1: | Note 3 |

| Long Term Incentive Plan (LTIP) | To incentivise senior management towards the achievement of mid-term specific performance targets and results, and promote the behaviours considered by the Committee to be key to the long-term success of the Co-op. | The Group Executive will be eligible to participate in an LTIP agreed by the Committee. Key terms of the plan:  
  - All LTIP awards are cash based, have a three-year performance period, and will be subject to performance measures and targets set at the start of each three-year award cycle.  
  - LTIP awards will be made annually although awards may be granted where an eligible colleague has joined the Co-op after the grant date.  
  - The Committee has the discretion to determine the performance measures for each LTIP award, including the weighting, ensuring that they support the long term strategy of the business.  
  - At the end of each LTIP performance period, the Committee will assess the overall performance of the Co-op and can reduce any payments under the award as it determines appropriate.  
  - Payments made under the LTIP are subject to claw back and malus provisions. | For 2016, the LTIP opportunity for the Group Executive is unchanged at 50% of salary at target performance (maximum pay-out will be 100% of salary at stretch performance). |

Note 2: | Note 3 |

**Notes to the table:**

Note 1: The Remuneration Committee is reviewing the current balance of fixed to variable remuneration. The policy of total remuneration being at the middle of the appropriate comparator market for fully competent performance will continue. Members will be updated on progress in the next Annual Report.

Note 2: The performance measures for the 2016-18 LTIP are not finalised but will be aligned with financial performance and the Co-op’s Values and Principles, including colleague engagement, customer perception and membership.

Note 3: AIP and LTIP opportunity for the Chief Executive will in future be aligned to those of a Grade B colleague (those holding strategic management roles), namely maximum 40% opportunity in AIP and maximum 50% opportunity in LTIP.
Remuneration Report continued

II Annual Report on Remuneration

What did the Executives earn in total during the year?

The tables below show the remuneration received by the Executives whilst appointed to the Group Executive during the 2015 financial year. Pippa Wicks was a member of the Group Executive during 2015 on an interim basis and is therefore not included in Table 1a. Pippa Wicks has been engaged by the Co-op through AlixPartners and the total fees paid in respect of her services during 2015 were £1.25m excluding VAT.

Table 1a – 2015 remuneration for Executives in post at 2 January 2016

<table>
<thead>
<tr>
<th>Date of appointment to the Executive (Note 1)</th>
<th>Date of stepping down from Executive (Note 1)</th>
<th>Basic salary £'000</th>
<th>Taxable benefits (Note 2)</th>
<th>2015 AIP (Note 3)</th>
<th>2015 2015-2015 LTIP (Note 4)</th>
<th>Pension benefits (Note 5)</th>
<th>Other (Note 6)</th>
<th>Total</th>
<th>Basic salary £'000</th>
<th>Taxable benefits</th>
<th>2014 Performance related payment</th>
<th>2012-2014 LTIP</th>
<th>Pension benefits</th>
<th>Other (Note 6)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richard Pennycook</td>
<td>1 Jul 2013</td>
<td>1,250</td>
<td>25</td>
<td>1,125</td>
<td>638</td>
<td>181</td>
<td>377</td>
<td>3,596</td>
<td>1,164</td>
<td>26</td>
<td>900</td>
<td>900</td>
<td>268</td>
<td>1,251</td>
<td></td>
</tr>
<tr>
<td>Alistair Asher</td>
<td>1 Jul 2013</td>
<td>550</td>
<td>17</td>
<td>358</td>
<td>404</td>
<td>80</td>
<td>–</td>
<td>1,409</td>
<td>534</td>
<td>17</td>
<td>550</td>
<td>550</td>
<td>–</td>
<td>1,186</td>
<td></td>
</tr>
<tr>
<td>Mike Bracken</td>
<td>30 Sep 2015</td>
<td>85</td>
<td>3</td>
<td>–</td>
<td>–</td>
<td>9</td>
<td>110</td>
<td>1,083</td>
<td>363</td>
<td>10</td>
<td>650</td>
<td>650</td>
<td>51</td>
<td>1,047</td>
<td></td>
</tr>
<tr>
<td>Rod Buimer</td>
<td>9 Jun 2014</td>
<td>650</td>
<td>17</td>
<td>488</td>
<td>–</td>
<td>108</td>
<td>–</td>
<td>1,263</td>
<td>363</td>
<td>10</td>
<td>650</td>
<td>650</td>
<td>51</td>
<td>1,047</td>
<td></td>
</tr>
<tr>
<td>Ian Ellis</td>
<td>4 Sep 2015</td>
<td>213</td>
<td>4</td>
<td>140</td>
<td>–</td>
<td>26</td>
<td>14</td>
<td>397</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Steve Murrell</td>
<td>16 Jul 2012</td>
<td>750</td>
<td>38</td>
<td>675</td>
<td>553</td>
<td>109</td>
<td>78</td>
<td>2,203</td>
<td>729</td>
<td>33</td>
<td>750</td>
<td>750</td>
<td>–</td>
<td>1,767</td>
<td></td>
</tr>
<tr>
<td>Sam Walker</td>
<td>17 Mar 2014</td>
<td>425</td>
<td>17</td>
<td>85</td>
<td>91</td>
<td>89</td>
<td>–</td>
<td>707</td>
<td>335</td>
<td>14</td>
<td>425</td>
<td>425</td>
<td>54</td>
<td>828</td>
<td></td>
</tr>
</tbody>
</table>

Table 1b – 2015 remuneration for Executives who left the Executive during the 2015 financial year

<table>
<thead>
<tr>
<th>Date of appointment to the Executive (Note 1)</th>
<th>Date of stepping down from Executive (Note 1)</th>
<th>Basic salary £'000</th>
<th>Taxable benefits (Note 2)</th>
<th>2015 AIP (Note 3)</th>
<th>2015 2015-2015 LTIP (Note 4)</th>
<th>Pension benefits (Note 5)</th>
<th>Other (Note 6)</th>
<th>Total</th>
<th>Basic salary £'000</th>
<th>Taxable benefits</th>
<th>2014 Performance related payment</th>
<th>2012-2014 LTIP</th>
<th>Pension benefits</th>
<th>Other (Note 6)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claire Davies</td>
<td>12 May 2014</td>
<td>212</td>
<td>6</td>
<td>66</td>
<td>–</td>
<td>16</td>
<td>–</td>
<td>190</td>
<td>167</td>
<td>10</td>
<td>265</td>
<td>265</td>
<td>468</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nick Folland</td>
<td>11 May 2013</td>
<td>91</td>
<td>7</td>
<td>138</td>
<td>291</td>
<td>32</td>
<td>124</td>
<td>804</td>
<td>524</td>
<td>17</td>
<td>550</td>
<td>550</td>
<td>84</td>
<td>1,307</td>
<td></td>
</tr>
<tr>
<td>Debbie Adams</td>
<td>1 Jul 2015</td>
<td>425</td>
<td>17</td>
<td>85</td>
<td>91</td>
<td>89</td>
<td>–</td>
<td>707</td>
<td>335</td>
<td>14</td>
<td>425</td>
<td>425</td>
<td>54</td>
<td>828</td>
<td></td>
</tr>
<tr>
<td>Paula Kerrigan</td>
<td>17 Mar 2014</td>
<td>186</td>
<td>8</td>
<td>100</td>
<td>74</td>
<td>29</td>
<td>–</td>
<td>397</td>
<td>315</td>
<td>14</td>
<td>400</td>
<td>400</td>
<td>51</td>
<td>780</td>
<td></td>
</tr>
</tbody>
</table>

Notes to Tables 1a and 1b

1. The date of appointment to or stepping down from the Executive may differ from the date service commenced or terminated with the Co-op.
2. Taxable benefits include car, fuel, car cash allowance and healthcare (where applicable).
3. AIP payments relate to payments under the Annual Incentive Plan.
5. Pension includes benefits accrued in the year from participation in pension schemes (using new disclosure calculation rules and factor of 20 for the build-up of Defined Benefit pension) and/or cash allowances in lieu of retirement benefit.
6. Other payments in 2015, which were agreed at the date of appointment, include:
   - A payment of £335,000 to Richard Pennycook as compensation for incentive scheme awards that he forfeited on taking a new executive position.
   - A payment of £124,000 to Nick Folland as compensation for incentive scheme awards that he forfeited on resignation from his previous employer.
   - Payments totalling £76,000 to Steve Murrells, comprising £50,000 as compensation for incentive scheme awards that he forfeited on resignation from his previous employer and £26,000 as part of continuing obligations under the relocation arrangements agreed on his recruitment and which ended during 2015.
   - Payments were agreed under the relocation policy to assist the following executives to stay close to their workplace during the working week. During 2015, Richard Pennycook received £42,000, Ian Ellis received £14,000, Debbie Adams received £22,000 and Mike Bracken received £10,000. Relocation payments are generally limited to a period of two years.
   - Debbie Adams received salary, pension contributions, car allowance and relocation allowance while employed as Group Secretary until her termination due to resignation on 31 December 2015.
Remuneration Report continued

Will the Group Executive receive a salary increase in 2016?
As part of the annual salary review for the Executives, the Committee has agreed that the Group Executive salaries would not be increased in 2016.

What directorships, other than those linked to the Co-op, do the Group Executive hold?
Richard Pennycook holds the following directorships.

<table>
<thead>
<tr>
<th>Position</th>
<th>Remuneration in 2015 (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chair, The Hut Group Limited</td>
<td>20,000</td>
</tr>
<tr>
<td>Chair, The Institute for Turnaround</td>
<td>–</td>
</tr>
<tr>
<td>Chair-Elect, Howdens Joinery Limited</td>
<td>52,000</td>
</tr>
<tr>
<td>Senior Independent Director, Persimmon plc</td>
<td>65,000</td>
</tr>
</tbody>
</table>

What LTIP scheme interests do the Executives hold?
Awards are made annually under the Long Term Incentive Plan (LTIP), and any payments due are made in cash, subject to the achievement of performance conditions over a three year period. Table 2a shows the maximum potential LTIP awards held by Executives in post at 2 January 2016. Table 2b shows the maximum potential award under each plan held by former Executives who left or stepped down from the Executive during the 2015 financial year. Lapsed awards include the portion of the award that did not vest due to not fully meeting the performance conditions.

### Table 2a – LTIP awards held by Executives in post at 2 January 2016

<table>
<thead>
<tr>
<th>Name of Executive</th>
<th>Award</th>
<th>Notes</th>
<th>Maximum award opportunity at start of the year</th>
<th>Maximum award opportunity at the year end</th>
<th>Maximum award opportunity at the year end</th>
<th>Maximum award opportunity at the year end</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richard Pennycook</td>
<td>2015-2017</td>
<td>1</td>
<td>–</td>
<td>1,250,000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>2014-2016</td>
<td>2</td>
<td>800,000</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>2013-2015</td>
<td>3</td>
<td>750,000</td>
<td>–</td>
<td>637,500</td>
<td>112,500</td>
</tr>
<tr>
<td>Alistair Asher</td>
<td>2015-2017</td>
<td>1</td>
<td>–</td>
<td>550,000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>2014-2016</td>
<td>2</td>
<td>550,000</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>2013-2015</td>
<td>3</td>
<td>475,000</td>
<td>–</td>
<td>403,750</td>
<td>71,250</td>
</tr>
<tr>
<td>Mike Bracken</td>
<td>2015-2017</td>
<td>1</td>
<td>–</td>
<td>263,000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Rod Bulmer</td>
<td>2015-2017</td>
<td>1</td>
<td>–</td>
<td>850,000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>2014-2016</td>
<td>2</td>
<td>650,000</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Ian Ellis</td>
<td>2015-2017</td>
<td>1</td>
<td>–</td>
<td>544,000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Steve Murrells</td>
<td>2015-2017</td>
<td>1</td>
<td>–</td>
<td>750,000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>2014-2016</td>
<td>2</td>
<td>750,000</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>2013-2015</td>
<td>3</td>
<td>650,000</td>
<td>–</td>
<td>552,500</td>
<td>97,500</td>
</tr>
<tr>
<td>Sam Walker</td>
<td>2015-2017</td>
<td>1</td>
<td>–</td>
<td>425,000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>2014-2016</td>
<td>2</td>
<td>425,000</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>2013-2015</td>
<td>3,4</td>
<td>107,500</td>
<td>–</td>
<td>91,375</td>
<td>16,125</td>
</tr>
</tbody>
</table>

### Notes to Table 2a
1. The 2015-2017 LTIP awards are subject to performance conditions which are deemed key to the success of the Rebuild phase. The measures are:
   - Net debt to EBITDA ratio (40% weighting. If the Threshold for this financial measure is not achieved, no part of the LTIP pays out.)
   - Membership spend as a percentage of total sales value (25% weighting)
   - Co-op colleague engagement (25% weighting)
   - Brand health (10% weighting)

2. The 2014-2016 awards are subject to performance conditions which are deemed key business objectives over the three financial years ending with the 2016 financial year. The performance conditions for the 2014-2016 LTIP awards are a net debt to EBITDA ratio, a cumulative cash flow measure and a reputation measure. These measures are equally weighted.

3. The 2013-2015 LTIP performance period has ended. The performance conditions, which were equally weighted and deemed to be critical Rescue objectives, were:
   - To re-capitalize the Bank
   - To successfully re-balance the cost base of the Group and achieve cost saving targets
   - To establish a revised senior leadership structure and populate this to the satisfaction of the Committee and operate a revised performance management process for the whole Group by the end of 2015
   - To have defined, communicated and embedded in the financial plan a new Group strategy and Purpose
   - To safeguard the reputation of the Group throughout the Rescue phase.
   - The Committee was satisfied that the Rescue conditions were achieved and the Co-op was ready to enter the Rebuild phase.

4. The 2013-2015 LTIP award held by Sam Walker was granted before she was appointed to the Group Executive. The award was at the level commensurate with her grade and as a member of the key retention category of participants.

5. LTIP grants were not made to Debbie Adams.
Remuneration Report continued

Table 2b – LTIP awards for Executives who left the Group during 2015

<table>
<thead>
<tr>
<th>Name of Executive</th>
<th>Award</th>
<th>Notes</th>
<th>Maximum award opportunity at start of the year £</th>
<th>Maximum 2015-2017 award opportunity granted £</th>
<th>Awards vested in year £</th>
<th>Awards lapsed in year £</th>
<th>Maximum award opportunity at the year end £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claire Davies</td>
<td>2014-2016</td>
<td>1,2</td>
<td>265,000</td>
<td>–</td>
<td>–</td>
<td>147,222</td>
<td>117,778</td>
</tr>
<tr>
<td>Nick Folland</td>
<td>2014-2016</td>
<td>1,2</td>
<td>550,000</td>
<td>–</td>
<td>–</td>
<td>296,278</td>
<td>259,722</td>
</tr>
<tr>
<td>Paula Kerrigan</td>
<td>2014-2016</td>
<td>1,2</td>
<td>400,000</td>
<td>–</td>
<td>–</td>
<td>211,111</td>
<td>188,889</td>
</tr>
</tbody>
</table>

Notes to Table 2b
1. The 2013-2015 LTIP performance period has ended and the outcome of the performance conditions are set out in the notes to Table 2a above.
2. The Group Executive members in the table retained part of their LTIP awards under the terms of their settlement agreements.
3. The 2013-2015 LTIP award held by Paula Kerrigan was granted before she was appointed to the Group Executive, at a level commensurate with her grade and as a member of the key retention category of participants.

What pension benefits are the Executives entitled to?

The table below shows the pension entitlements for the Group Executive. The figures shown below reflect the period that the individuals were appointed to the Group Executive.

Comparative figures for 2014 are shown in brackets.

Table 3a – pension entitlements for Executives in post at 2 January 2016

<table>
<thead>
<tr>
<th>Name of Executive</th>
<th>Date of appointment to the Executive</th>
<th>Years of Group Service</th>
<th>Total Defined Benefit Pension accrued at 2 January 2016 (Note 1) £'000</th>
<th>Increase in Defined Benefit Pension during year (gross of inflation) £</th>
<th>Increase in Defined Benefit Pension during year (net of inflation) £</th>
<th>Value of previous column x 20 (net of Members' contributions) £'000</th>
<th>Employer Contributions to Defined Contribution Pension £'000</th>
<th>Payment in lieu of pension benefit £'000</th>
<th>Total Pensions Benefits £'000</th>
<th>Defined Benefit Pension Normal Retirement Date (Age)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richard Pennycook</td>
<td>1 Jul 2013</td>
<td>2</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>181 (163)</td>
<td>181 (163)</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Alistair Asher</td>
<td>1 Jul 2013</td>
<td>2</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>80 (85)</td>
<td>80 (85)</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Mike Bracken</td>
<td>30 Sep 2015</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>9</td>
<td>9</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Rod Bulmer</td>
<td>9 Jun 2014</td>
<td>1</td>
<td>34</td>
<td>2,381</td>
<td>1,978</td>
<td>31 (6)</td>
<td>4 (–)</td>
<td>73 (45)</td>
<td>108 (51)</td>
<td>65</td>
</tr>
<tr>
<td>Ian Ellis</td>
<td>4 Sep 2015</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>26</td>
<td>26</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Steve Murrells</td>
<td>16 Jul 2012</td>
<td>3</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>109 (117)</td>
<td>109 (117)</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Sam Walker</td>
<td>17 Mar 2014</td>
<td>2</td>
<td>4</td>
<td>3,814</td>
<td>3,814</td>
<td>58 (–)</td>
<td>11 (–)</td>
<td>20 (54)</td>
<td>89 (54)</td>
<td>65</td>
</tr>
</tbody>
</table>

Notes to Table 3a
1. The pension benefits are calculated using the market rate for pension liabilities at 31 March 2015, which is expected to remain at approximately 1.8% for 2016.
2. The pension benefits are subject to the terms of the pension schemes in which the individuals are entitled.
3. The pension benefits are subject to the terms of the pension schemes in which the individuals are entitled.
4. The pension benefits are subject to the terms of the pension schemes in which the individuals are entitled.
Table 3b – Pension entitlements for Executives who left or stepped down from the Executive during the 2015 financial year

<table>
<thead>
<tr>
<th>Date of appointment to the Executive</th>
<th>Date of stepping down from Executive</th>
<th>Years of Group Service</th>
<th>Total Defined Pension at 2 January 2016 (Note 1) £'000</th>
<th>Increase in Defined Pension during year (gross of inflation) £</th>
<th>Increase in Defined Pension during year (net of inflation) £</th>
<th>Value of previous column x 20 (net of Members contributions) £’000</th>
<th>Employer Contributions to Defined Pension £’000</th>
<th>Payment in lieu of pension benefit £’000</th>
<th>Total Pensions Benefits £’000</th>
<th>Defined Benefit Pension Normal Retirement Date (Age)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claire Davies</td>
<td>12 May 2014</td>
<td>15 May 2015</td>
<td>1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>8 (13)</td>
<td>8 (13)</td>
<td>16 (26)</td>
<td>–</td>
</tr>
<tr>
<td>Debbie Adams</td>
<td>1 Jul 2015</td>
<td>31 Dec 2015</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>13</td>
<td>13</td>
<td>–</td>
</tr>
<tr>
<td>Nick Folland</td>
<td>11 May 2013</td>
<td>16 May 2015</td>
<td>2</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>4 (9)</td>
<td>28 (75)</td>
<td>32 (84)</td>
<td>–</td>
</tr>
<tr>
<td>Paula Kerrigan</td>
<td>17 Mar 2014</td>
<td>15 Jun 2015</td>
<td>1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>29 (51)</td>
<td>–</td>
<td>29 (51)</td>
<td>–</td>
</tr>
</tbody>
</table>

Notes to Tables 3a and 3b
1. Total Defined Benefit pension is that which would be paid annually on retirement at normal retirement age based on service to 2 January 2016 and includes any transferred-in benefits as appropriate. There is no additional pension benefit payable in the event of an Executive’s early retirement.
2. All pension scheme members have the option of paying additional voluntary contributions to their respective pension scheme. Neither any contributions paid nor any benefits arising from them are shown in the above table.

What arrangements have been agreed for former Executives?

Details of the settlement agreements for Executives who have left the Co-op during 2015 are shown below.

Claire Davies
Claire Davies’s role was made redundant on 16 May 2015 as a result of the role relocating. Her earnings whilst she was an active member of the Executive up to 16 May 2015 are shown in Table 1b. The terms of her settlement agreement included £66,000 being her contractual entitlement to salary for the balance of her notice period. An amount of £140,000 was negotiated to resolve any claims arising from her employment, and £12,000 was paid towards outplacement support.

Claire Davies retains the part of the 2014-2016 LITP that relates to the period of time she was in employment and this remains subject to the original performance measures and the original performance periods. Details of this award, including the portion that lapsed on termination of employment, are set out in Table 2b. She also retains eligibility to participate in the 2015 AIP on the same terms as other executives, but with any payment made on a pro rata basis to reflect her period of employment within the 2015 performance year.

Nick Folland
Nick Folland’s role was made redundant on 16 May 2015. His earnings whilst he was an active member of the Executive up to 16 May 2015 are shown in Table 1b. The terms of his settlement agreement included an amount of £413,000 being his contractual entitlement to salary for the nine months balance of his notice period, £20,000 towards career advice, and ongoing participation in the healthcare benefit to 31 December 2015.

Nick Folland retains the parts of the 2013-2015 LITP and 2014-2016 LITP that relate to the period of time he was in employment and these remain subject to the original performance measures and the original performance periods. Details of these awards, including the portion that lapsed on termination of employment and those that have vested, are set out in Table 2b. He also retains eligibility to participate in the 2015 AIP on the same terms as other executives, but with any payment made on a pro rata basis to reflect his period of employment within the 2015 performance year and additionally subject to completion of certain objectives and handover requirements.
Remuneration Report continued

Paula Kerrigan
Paula Kerrigan’s employment terminated on 15 June 2015. Her earnings whilst she was an active member of the Executive up to 15 June 2015 are shown in Table 1b.

Under the terms of Paula Kerrigan’s settlement agreement, for the remainder of the notice period after termination of employment on 15 June 2015, the Society was only obliged to pay Paula Kerrigan the difference between her base salary and contractual benefits from the Society and the earnings from her new employer. If she had remained on garden leave for her entire notice period she would have been paid a total of £330,000 (comprising base salary, benefits and pension for the period), but instead this overall cost was reduced to £176,000 which will be paid in instalments until 18 February 2016. This mitigated the cost to the Society by £124,000.

The terms of her settlement agreement also included an amount of £20,000 towards career advice. Paula Kerrigan retains the parts of the 2013-2015 LTIP and 2014-2016 LTIP that relate to the period of time she was in employment and these remain subject to the original performance measures and the original performance periods. Details of these awards, including the portion that lapsed on termination of employment and those that have vested, are set out in Table 2b. She also retains eligibility to participate in the 2015 AIP on the same terms as other executives, but with any payment made on a pro rata basis to reflect her period of employment within the 2015 performance year. This good leaver eligibility for 2015 AIP was additionally subject to completion of certain objectives and handover requirements.

Debbie Adams
Debbie Adams’s employment terminated on 31 December 2015. Her earnings whilst she was an active member of the Executive are shown in Table 1b.

The terms of the settlement agreement did not provide for termination payments other than contractual pay and benefits earned up until her termination date.

Under the terms of their settlement agreements the following former executives who left the Co-op during 2013 and 2014 retained the parts of their 2013-2015 LTIP that related to the period of time they were in employment, other than Rebecca Skitt who exceptionally retained one third of her 2013-15 LTIP as part of her negotiated settlement. These remained subject to the original performance measures and the original performance periods. The following payments were made on the vesting of these awards following the end of the 2013-2015 performance period:

<table>
<thead>
<tr>
<th>Date Employment Terminated</th>
<th>2013-2015 LTIP awards vested in year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gill Barr 4 July 2014</td>
<td>£133,450</td>
</tr>
<tr>
<td>Mark Craig 1 April 2014</td>
<td>£66,583</td>
</tr>
<tr>
<td>Moira Lees 20 December 2013</td>
<td>£90,903</td>
</tr>
<tr>
<td>Rebecca Skitt 1 September 2014</td>
<td>£184,167</td>
</tr>
<tr>
<td>Niall Booker 5 September 2015 (1/3rd of full LTIP paid by Co-op)</td>
<td>£340,000</td>
</tr>
</tbody>
</table>

Non-executive directors’ remuneration

On 16 May 2015 the Group Board was appointed, made up of Independent Non-Executive Directors, including the Group Chair, and Member Nominated Directors, together with the Group Chief Executive. At this point the Transitional Board ceased.

This section of the report includes details of the payments made to the non-executive directors (NEDs) in office prior to 16 May 2015 and those in place following this date.

1. What are the fees for the NEDs post 16 May 2015?

<table>
<thead>
<tr>
<th>NED Role</th>
<th>Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Chair</td>
<td>The basic fee for the Group Chair role is £250,000 per annum. No additional fees are paid.</td>
</tr>
</tbody>
</table>
| Independent Non-Executive Directors (INEDs) | • The basic fee for an INED is £90,000 per annum.  
• The following additional fees apply:  
• SID £15,000  
• Chair of Risk and Audit Committee £15,000  
• Chair of Remuneration Committee £15,000  
• There is no additional fee for the Chair of Nominations Committee or for being a member of any committee. |
| Member Nominated Directors (MNDs) | • The basic fee for an MND is £80,000 per annum.  
• The same additional fees for the INEDs apply to MNDs who are chairs of a committee. There is no additional fee for being a member of any committee. |

The Group Chair has access to a pool car and driver for Co-op business if required. No other benefits will be provided for the Group Chair or any other NED member of the Group Board.

All NEDs are entitled to reimbursement of all reasonable and properly documented travel, hotel and other expenses incurred in performing their duties, in accordance with the terms of the Society’s expenses policy.

None of the NEDs, by virtue of their Board position, participated in any of the Co-op’s incentive plans or pension schemes, nor did they receive performance related payments during the period.

No additional fees will be paid to an Executive who sits on the Group Board or on any of the operating division boards.

The NEDs’ letters of appointment are available for inspection on request.
Remuneration Report continued

2) What were the fees for the Elected Directors pre 16 May 2015?

<table>
<thead>
<tr>
<th>Role</th>
<th>Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Chair</td>
<td>- The basic fee for the Chair was £120,368 per annum. No additional fees were paid.</td>
</tr>
<tr>
<td>Elected Directors</td>
<td>- The basic remuneration for a Group director was £11,574 per annum. In addition, the members of the Co-operative Food and Specialist Businesses Boards received a fee of £11,574 per annum (the Chairs of these Boards received a total of £23,148 per annum which included their membership fee).</td>
</tr>
<tr>
<td></td>
<td>- In addition, the members of the Co-operative Food and Specialist Businesses Boards received a fee of £11,574 per annum (the Chairs of these Boards received a total of £23,148 per annum which included their membership fee).</td>
</tr>
<tr>
<td></td>
<td>- Additional fees for membership of and for chairing other committees varied depending on the duties/committee and ranged from £1,157 to £5,787 per annum.</td>
</tr>
<tr>
<td></td>
<td>- An Elected Director sitting on the Co-operative Banking Group Board received an additional fee of £17,361 per annum.</td>
</tr>
<tr>
<td>INED – Transitional Board</td>
<td>- The INED on the Transitional Board was Simon Burke who was previously a member of the Co-operative Food Board. His fee arrangements from his role on the Food Board continued during the Transitional Period. This fee was £53,560 per annum.</td>
</tr>
<tr>
<td>Pension Trustees</td>
<td>- Additional fees for membership of a Pension Fund Board were £3,472 per annum. The total fee for chairing a Pension Fund Board was £5,787 per annum.</td>
</tr>
</tbody>
</table>

How long are directors appointed to the Board for?

Appointments to the Board are for the following periods:

- The Group Chair and INEDs have been appointed for an initial two-year term subject to election and re-election in accordance with the Rules.
- All directors (other than MNDs) will retire from office at the second AGM following his/her election/re-election. The Group Board and the Council have the right to agree otherwise in order to avoid a situation where more than half of these roles would be retiring from office at the same AGM. While not obliged to do so under the Rules, the Chief Executive has stated he will seek re-election at each AGM.
- A Group Chair or an INED who has been in office for a continuous period of six years or more at the date of an AGM will be required to retire from office and they will not be eligible to put themselves forward for election again.
- An MND will ordinarily serve terms of two years and may serve a maximum of three terms of two years each, subject to the Member Nominated Director Election Regulations. One MND elected in 2015, Hazel Blears, was elected for a one year term to ensure not all MNDs had the same term. If re-elected she may serve for a further three terms of two years.

Only the Group Chair was eligible for a car benefit though this was not taken up by the current Group Chair.

None of the Elected Directors, by virtue of their Board position, participated in any of the Co-op’s incentive plans or pension schemes, nor did they receive performance related payments during the period.

The Elected Directors do not have service contracts but instead receive letters of appointment. The letters of appointment are available for inspection on request.
**Remuneration Report** continued

**What did the NEDs earn during the year?**
The fees shown are rounded to the nearest £1,000. The information is provided in two tables covering the period prior to, and post, the 2015 AGM.

**Table 4 – Non-executive members of the Group Board post-2015 AGM**

<table>
<thead>
<tr>
<th>Notes</th>
<th>Group Board £’000</th>
<th>Group Audit &amp; Risk Committee Chair £’000</th>
<th>Group Remuneration Committee Chair £’000</th>
<th>Senior Independent Director £’000</th>
<th>2015 Total £’000</th>
<th>2014 Total £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allan Leighton (Chair)</td>
<td>1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>Note 1</td>
<td>–</td>
</tr>
<tr>
<td>Hazel Blears</td>
<td></td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>Simon Burke</td>
<td>2,3</td>
<td>38</td>
<td>8</td>
<td>–</td>
<td>46</td>
<td>Note 3</td>
</tr>
<tr>
<td>Paul Chandler</td>
<td></td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>38</td>
<td>–</td>
</tr>
<tr>
<td>Sir Christopher Kelly</td>
<td>2,3</td>
<td>38</td>
<td>–</td>
<td>10</td>
<td>48</td>
<td>Note 3</td>
</tr>
<tr>
<td>Peter Plumb</td>
<td></td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>31</td>
<td>–</td>
</tr>
<tr>
<td>Ruth Spellman</td>
<td></td>
<td>38</td>
<td>–</td>
<td>–</td>
<td>38</td>
<td>–</td>
</tr>
<tr>
<td>Stevie Spring</td>
<td>2</td>
<td>–</td>
<td>8</td>
<td>–</td>
<td>39</td>
<td>–</td>
</tr>
</tbody>
</table>

**Notes**
1. Allan Leighton has waived his fee of £250,000 per annum. Instead this is paid direct by the Co-op to the Co-operative Community Investment Foundation.
2. The Group Risk & Audit Committee Chair, the Remuneration Committee Chair and the Senior Independent Director each receive an additional fee of £15,000 per annum.
3. Fees for Simon Burke and Sir Christopher Kelly appear in both Table 4 and Table 5a, which precludes a comparison in the tables against their total 2015 fee. Simon Burke’s total 2015 fee was £66,000 (2014: £52,000) and Sir Christopher Kelly’s total 2015 fee was £75,000 (2014: £10,000).
4. No additional fee is paid to the Chair of the Nominations Committee.

**Table 5a – Non-executive members of the Group Board pre-2015 AGM**

<table>
<thead>
<tr>
<th>Notes</th>
<th>Group Board £’000</th>
<th>Group Audit &amp; Risk Committee £’000</th>
<th>Group Remuneration Committee £’000</th>
<th>Co-operative Food Holdings Limited Board £’000</th>
<th>Co-operative Specialist Business Limited Board £’000</th>
<th>Co-operative Banking Limited Board £’000</th>
<th>Regional Board &amp; Area Committee Fees £’000</th>
<th>Pension Fund Trustee £’000</th>
<th>2015 Total £’000</th>
<th>2014 Total £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ursula Lidbetter (Former Chair)</td>
<td>1,5</td>
<td>44</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>44</td>
<td>120</td>
</tr>
<tr>
<td>Allan Leighton (Chair)</td>
<td>2</td>
<td>Note 2</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>Note 2</td>
<td>–</td>
</tr>
<tr>
<td>Marc Bicknell</td>
<td>7</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>8</td>
<td>–</td>
<td>–</td>
<td>3</td>
<td>17</td>
<td>43</td>
</tr>
<tr>
<td>Duncan Bowdler</td>
<td></td>
<td>4</td>
<td>1</td>
<td>–</td>
<td>–</td>
<td>6</td>
<td>3</td>
<td>–</td>
<td>14</td>
<td>39</td>
</tr>
<tr>
<td>Simon Burke</td>
<td>20</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>20</td>
<td>See Table 4</td>
</tr>
<tr>
<td>Eric Calderwood</td>
<td>3,6</td>
<td>4</td>
<td>–</td>
<td>2</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>3</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>Martyn Chestle</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>–</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Michael Harriott</td>
<td>8</td>
<td>4</td>
<td>–</td>
<td>1</td>
<td>–</td>
<td>8</td>
<td>–</td>
<td>3</td>
<td>16</td>
<td>38</td>
</tr>
<tr>
<td>Sir Christopher Kelly</td>
<td>5</td>
<td>27</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>27</td>
<td>See Table 4</td>
</tr>
<tr>
<td>Frank Nelson</td>
<td>4</td>
<td>–</td>
<td>1</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>3</td>
<td>–</td>
<td>12</td>
<td>24</td>
</tr>
</tbody>
</table>

**Notes:**
1. Ursula Lidbetter stepped down as Chair on 19 February 2015.
2. Allan Leighton was appointed Group Chair on 19 February 2015. He has waived his fee which is instead paid direct by the Co-op to the Co-operative Community Investment Foundation.
3. Eric Calderwood was Chair of Group Remuneration Committee.
4. Martyn Chestle was Chair of Group Risk & Audit Committee.
5. Sir Christopher Kelly and Ursula Lidbetter were members of Group Remuneration and Appointments Committee but not paid any additional fees.
6. Eric Calderwood continued to receive fees for Chair of tsp Pensions Trustees (Scotland) - Lothian & Borders to December 2015.
7. Marc Bicknell was Chair of Co-operative Food Holdings.
8. Michael Harriott was Chair of Co-operative Specialist Businesses Limited Board.
9. All Board members of the Co-op Board attended Transitional Search Committee Meetings but did not receive any additional fees for this Committee.
Remuneration Report continued

Table 5b – Former group Board members receiving payments to AGM on 16 May 2015

<table>
<thead>
<tr>
<th>Notes</th>
<th>Group Board £’000</th>
<th>Group Audit &amp; Risk £’000</th>
<th>Group Remuneration &amp; Appointments Committee £’000</th>
<th>Co-operative Food Holdings Limited Board £’000</th>
<th>Co-operative Specialist Business Limited Board £’000</th>
<th>Group Values &amp; Principles Board £’000</th>
<th>Regional Board &amp; Area Committee £’000</th>
<th>Co-operatives UK &amp; Co-operative Press Board £’000</th>
<th>2015 Total £’000</th>
<th>2014 Total £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jenny Barnes</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>4</td>
<td>–</td>
<td>3</td>
<td>1</td>
<td>12</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Herbert Daybell</td>
<td>1</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>4</td>
<td>–</td>
<td>1</td>
<td>3</td>
<td>–</td>
<td>12</td>
</tr>
<tr>
<td>Andrew Donkin</td>
<td>3</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>4</td>
<td>–</td>
<td>3</td>
<td>–</td>
<td>11</td>
</tr>
<tr>
<td>Jenny de Villiers</td>
<td>4</td>
<td>–</td>
<td>1</td>
<td>–</td>
<td>4</td>
<td>–</td>
<td>3</td>
<td>1</td>
<td>13</td>
<td>33</td>
</tr>
<tr>
<td>Robert Harber</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>3</td>
<td>–</td>
<td>11</td>
<td>21</td>
</tr>
<tr>
<td>Ray Henderson</td>
<td>2</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>3</td>
<td>–</td>
<td>11</td>
</tr>
<tr>
<td>David Morrow</td>
<td>4</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>4</td>
<td>–</td>
<td>3</td>
<td>–</td>
<td>11</td>
</tr>
<tr>
<td>David Pownall</td>
<td>5</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>4</td>
<td>–</td>
<td>3</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>David Smith</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>4</td>
<td>–</td>
<td>3</td>
<td>–</td>
<td>11</td>
<td>21</td>
</tr>
</tbody>
</table>

Notes
1. Herbert Daybell – Chair of Group Values & Principles Board.
2. Ray Henderson stepped down from Co-operatives UK Board 3 February 2015.
3. Andrew Donkin’s fees for Regional Board & Area Committee vary because he also received a fee for serving as a Regional Values & Principles Committee Member.
4. David Morrow’s Regional Board & Area Committee Fees vary because he sits on the Northern Ireland Council Members’ Committee.
5. David Pownall received fees for both Co-operatives UK Board and Press Board.

No additional benefits or payments were made to these former Board members.

For certain former Board members it was agreed that it was fair and reasonable that they continue to receive their director’s fee until the AGM in May 2016, as originally envisaged prior to the establishment of the Transitional Board. The former directors who will continue to receive such fees, together with the additional fees received during 2015 following the AGM are Michael Harriott (£23,504) and Jenny de Villiers (£17,057). The following directors also received fees in respect of certain post-AGM duties: Jenny Barnes (£398 in respect of the Co-op Press Board) and Eric Calderwood (£3,673 as Pension Fund Trustee Chair).

For details of fees paid to Independent Non-Executive Directors on the boards of subsidiary businesses please see the relevant accounts which are available on request from the Group Secretary.

Role of the Committee

The Committee is responsible for determining and overseeing the Executive Remuneration Policy for the Co-op to ensure a consistent approach across the Co-op and its subsidiaries.

Terms of reference

The terms of reference of the Committee are available on the Co-op website.

Members of the Committee

The Co-op Remuneration Committee was appointed with effect from 25 June 2015 and superseded the previous Transitional Remuneration Committee that had been appointed on 30 September 2014. The members of the Committee and attendance during the 2015 year were as follows:

<table>
<thead>
<tr>
<th>Committee member</th>
<th>Date of appointment</th>
<th>Number of meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stevie Spring (Chair)</td>
<td>25 June 2015</td>
<td>4 (4)</td>
</tr>
<tr>
<td>Sir Christopher Kelly</td>
<td>25 June 2015</td>
<td>4 (4)</td>
</tr>
<tr>
<td>Ruth Spellman</td>
<td>25 June 2015</td>
<td>4 (4)</td>
</tr>
</tbody>
</table>

The number in brackets denotes the number of meetings the individual was eligible to attend.

The Chief Executive, the Group Secretary and the Chief HR Officer are also invited to attend the meetings of the Committee, but are not customarily present when their own remuneration or terms and conditions are being considered. Other individuals are invited to attend for specific agenda items when necessary.

The Committee members are all non-executive. They have no personal financial interests in the Committee’s decisions and they have no involvement in the day-to-day management of the Co-op. The Co-op Board believes that all members of the Committee are independent for the purpose of reviewing remuneration matters.

Independent advice

In carrying out its responsibilities, the Committee has access to independent advice as required. During 2015, the Committee retained New Bridge Street (an Aon Hewitt company) as its independent remuneration adviser. The fees paid to New Bridge Street during this period totalled £80,743 excluding VAT.

New Bridge Street is a signatory of the Remuneration Consultants’ Code of Conduct which requires its advice to be objective and impartial.

Hogan Lovells provided independent legal advice to the Committee as required. The total fee paid to Hogan Lovells was £4,845 excluding VAT.
Report of the Nominations Committee

Chair’s Introduction

I was privileged to join our Group as Chair in February 2015 and I am writing my first Nominations Committee Report to you, having been appointed as Chair of the Committee when it came into being in May 2015.

This has been a busy year of change following the introduction of the new governance framework in 2015. The Board has been transformed with the appointment of five Independent Non-Executive Directors (INEDs) and the election of three Member Nominated Directors (MNDs).

We have built an excellent team with a broad mix of skills and experience to support and challenge the Executive. I am pleased to report that all directors have made a valuable contribution to the Group Board since their appointment and I am looking forward to working with them in the future.

We have a strong commitment to diversity and 27% of our Board are female.

Allan Leighton
Chair of the Nominations Committee

Background

As part of the Transitional arrangements, the Group operated a Transitional Search Committee. This Committee had a limited remit which was to oversee and co-ordinate the appointment of Independent Non-Executive Directors to the new Group Board.

Following the 2015 Annual General Meeting, and the creation of the new Group Board, the Transitional Search Committee was replaced by the newly created Nominations Committee.

To make this report easier to read, it covers the activities of both the Transitional Search Committee and the Nominations Committee, referred to throughout as “the Committee”.

Role of the Committee

The Committee is responsible for:

- leading the selection process for Independent Non-Executive Directors (INEDs), Executive Directors and other specified non-Board appointments;
- reviewing and approving the qualification, commercial experience and co-operative values requirements of INEDs and Executive Directors, confirming that they satisfy such requirements throughout their term of office and before they are appointed, elected or re-elected;
- reviewing the effectiveness of the Group Board by ensuring that the Group Board composition provides an appropriate balance of skills, experience, diversity and gender balance to provide effective leadership and oversight;
- evaluating the performance of directors both individually and collectively;
- ensuring that appropriate succession plans are in place for key roles; and
- submitting proposals to the Non-Executive Directors’ Fees Committee in respect of the remuneration of the Group Chair, INEDs and MNDs.

In addition to the above, the Nominations Committee currently has the following responsibilities in relation to the Member Nominated Directors (MNDs):

- reviewing and approving the qualification, commercial experience and co-operative values requirements of MND candidates; and
- monitoring whether the MNDs satisfy the Membership criteria and Eligibility criteria throughout their terms of office.

In fulfilling its obligations regarding MNDs, the Committee has, during 2016, received the support of the Member Nominated Director Joint Selection and Approvals Committee, a joint Council and Board Committee.
Report of the Nominations Committee continued

Terms of reference
The Nominations Committee was newly created as part of the Group’s Governance Reforms and its Terms of Reference were approved by the Group Board in June 2015.

Membership and attendance
The table below shows the membership and attendance at meetings of the Nominations Committee following the AGM in 2015:

<table>
<thead>
<tr>
<th>Committee Member</th>
<th>Number of meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allan Leighton (Chair)</td>
<td>2 (2)</td>
</tr>
<tr>
<td>Simon Burke (INED)</td>
<td>2 (2)</td>
</tr>
<tr>
<td>Sir Christopher Kelly (SID)</td>
<td>2 (2)</td>
</tr>
<tr>
<td>Hazel Blears (MND)</td>
<td>2 (2)</td>
</tr>
<tr>
<td>Ruth Spellman (MND)</td>
<td>2 (2)</td>
</tr>
<tr>
<td>Nick Crofts (Council President)</td>
<td>1 (1)</td>
</tr>
</tbody>
</table>

The number in brackets denotes the number of meetings the individual was eligible to attend.

The Committee is chaired by the Group Chair and the Group Chief Executive is invited to attend by the Chair.

Committee focus
During the year, the Committee has overseen a robust interview and due diligence process leading to recommendations in respect of the following appointments:

- February 2015 - Allan Leighton appointed Independent Group Chair.
- June 2015 – Stevie Spring and Peter Plumb appointed as Independent Non-Executive Directors.
- June 2015 – Simon Burke confirmed as Risk and Audit Committee Chair following interim appointment in this role.
- Approval of the shortlist of candidates put forward in the 2015 Member Nominated Director election.

In addition, the Committee has undertaken the following activities:

- Prepared reports for the Council Scrutiny Committee, to enable this committee to scrutinise the INED appointment process.
- Agreed the approach to the annual Board evaluation process.

In its search for the new Group Chair and INEDs, the Committee was supported by professional search firm, Odgers Berndtson. The Committee also engaged the services of Peter Jackson, an independent adviser with substantial Board experience, to assist in the interview/selection process of the Chair. The 2015 MND selection process was supported by independent search firm, Warren Partners.

Review of directors’ qualification and commercial experience
The Committee is required to review and approve the qualifying and commercial experience requirements for INEDs, MNDs and Executive Directors and to confirm whether these have been satisfied throughout their term of office and before they are appointed.

Having undertaken this review, the Committee can confirm that the INEDs, MNDs and the Executive Directors have all met the requirements.

Board evaluation
The Group Board takes its performance seriously and as such it is enshrined in the Group’s Rules that the Committee shall conduct an annual formal and rigorous evaluation of the Board’s performance.

As the new Group Board was only formed following the end of the Transitional period on 16 May 2015, the Committee commenced an internal evaluation of the Group Board during 2016.

Our Senior Independent Director, Sir Christopher Kelly, led this process which 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 Boardroom and with key Committees, together with any training and development needs. The evaluation has been facilitated through a tailored questionnaire accessed via the Diligent Boardpad application.

The results of the Board Evaluation are due to be considered by the Committee later in the year and will be used by the Committee to form a report and make recommendations to the Group Board. The results will also directly inform the Committee’s nomination and appointment strategy for the Board together with the programme of Board and director development.

Induction and training
Consistent with Co-operative Values and Principles, the Group is committed to ongoing learning and development for all its directors. As such, before accepting a position as a director, an individual must agree to undertake training during their first year of office and otherwise as deemed appropriate by the Group Secretary.

This training includes, in particular, information on the roles and responsibilities of being a director of a co-operative society.

All directors undergo a comprehensive and timely induction on appointment to the Group Board. This induction is designed to help the new director to contribute within an appropriately short timeframe to the Board, and to maximise the quality of his or her contribution.

Induction comprises three core components:

- • corporate induction focusing on the Group’s Purpose and strategy, business and organisational structure, financials, the markets in which it operates and the individual businesses;
Report of the Nominations Committee continued

- legal duties and responsibilities including statutory duties of a director, Board policies and procedures, Board Code of Conduct, governance structures, relationship with the Members’ Council and Co-operative Values and Principles; and
- bespoke induction tailored to each individual director's needs.

The Group Secretary is responsible for evaluating the adequacy of directors’ training and that it meets the requirements contemplated by the Group Rules.

Succession planning

The Board Composition Charter sets out the following principles in relation to the experience and skills of directors. These principles also apply to succession planning:

- The collective experience and skills of the directors is broad enough to enable the Board to provide effective oversight of the Group and its various businesses as a whole.
- It reflects a diverse range of backgrounds, views and perspectives.
- It provides an effective voice for members.
- It allows all directors to participate effectively in meetings.
- Changes to the composition of the Board can be managed without undue disruption.
- Committees can function without placing over reliance on particular individuals.

Diversity on the Group Board

The Board Composition Charter states that “The Board will be appropriately balanced and diverse in its broadest sense including diversity of gender, ethnicity, age and geography and will seek to ensure an appropriate balance”.

Whilst the new Group Board has not to date set its aspirations in terms of gender diversity, the current balance on the Board meets the target set by the Davies Review in 2011, which was to have at least 25% female representation by 2015.

Focus for 2016

We have already made some important additions to the Board, with the appointment of Stevie Spring and Peter Plumb in 2015 and the more recent appointments of Ian Ellis and Lord Victor Adebowale. Much remains to be done during the year to ensure that the responsibilities of the Committee are reviewed and implemented. Key activities will include:

- the search and selection of a permanent Group Secretary;
- conducting an evaluation of the performance of the Group Chair;
- implementing and delivering a comprehensive directors’ training programme;
- ensuring the Group has an effective Diversity and Inclusion policy; and
- ensuring we maintain a Board composition which is of the right calibre, size and balance to continue leading the Group through its Rebuild stage.
Directors' Report

Results and distributions
The profit before taxation was £23m (2014: £124m). The directors do not recommend a final dividend. The Group Board determined not to pay an interim dividend in 2015.

Going concern
The financial statements are prepared on a going concern basis as the directors have a reasonable expectation that the Group has access to adequate resources to enable it to continue in operational existence for the foreseeable future.
In assessing the appropriateness of the going concern basis of preparation, the directors have firstly considered the going concern position and outlook of the Trading Group, the Co-operative Banking Group and the General Insurance business separately, as they are independently funded. The directors have then, taking these individual assessments into account, considered the overall going concern position of the Group.
In making their assessment, the directors have considered a wide range of information relating to present and future conditions, including future forecasts of profitability, cash flow and covenant compliance, and available capital resources.
Further information relevant to the directors' assessment is provided within the general accounting policies section of the financial statements (page 84).

Longer term viability
The directors have assessed the longer term viability of the Group, taking into account the Group's current position and the potential material impact of the principal risks as set out on pages 33 to 35.
The directors have determined that a three-year period to 31 December 2018 is an appropriate period over which to provide its viability statement as this is the period reviewed by the Group board in the strategic planning process. The directors believe that this presents the Board with a reasonable degree of confidence over this longer term outlook.
Following their review, the directors have therefore concluded that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2018.

Post balance sheet events
There have been no material post balance sheet events.

Corporate governance report
The corporate governance report is contained on pages 40 to 46. This includes the appointment and retirement of directors, directors' conflicts of interest and directors' indemnities.

Employees and employment of disabled persons
Information on the Group's approach to the employment, development and engagement of colleagues can be found in the Co-op People section on pages 24 and 25.

Corporate responsibility and the environment
The Sustainability Review can be found on pages 26 to 32. This section also describes how the Group manages its social, ethical and environmental impact and includes the disclosure of greenhouse gas emissions.

Political donations
Like many other businesses of a comparable size, the Group undertakes an engagement programme with a wide range of political opinion formers and decision-makers, designed to protect, promote and enhance the Group’s corporate reputation. In addition, on issues of sectoral relevance, the Group is an active participant in the work of business trade associations.
Quite separately to this corporate activity, the Group is currently a member of The Co-operative Party, which was created in 1917 by the UK co-operative movement in order to promote its Values and Principles. The Co-operative Party works to raise awareness of the benefits of co-operative and mutual models.
The Group made donations totalling £625,600 (2014: £625,600) to the Co-operative Party, representing the Group's financial subscription to the Party for 2015. The Co-operative Party reports donations to the Electoral Commission in accordance with its reporting obligations as a registered political party under the Political Parties, Elections and Referendums Act 2000.
A motion will be put to the members at the 2016 Annual General Meeting regarding future political donations and expenditure.

Compliance with Grocery Supplier Code of Practice (‘the Code’)
The Code was introduced on 4 February 2010 following a Competition Commission investigation of the market for the supply of groceries in the UK. The Code applies to all grocery retailers with a turnover greater than £1bn and aims to address a number of findings of the investigation by placing those retailers under specific obligations regarding their supplier relationships, including a requirement to deliver an annual compliance report (of which this is a summary) to the Office of Fair Trading.
We expect to work purposefully and collaboratively with our suppliers in the long term interests of our customers and members, and believe this approach has served us well in the past and will continue to do so in the future. Naturally, we take our responsibilities under the Code seriously.
Consequently, a significant investment has continued to be made in robust compliance processes and systems. This includes work commissioned by our appointed Code Compliance Officer, a rolling programme of internal audits to test compliance, a comprehensive training programme for all colleagues involved in dealings with our suppliers, an online supplier portal with a dedicated support team, and the provision of regular reports to the Group’s Risk and Audit Committee to ensure that the Committee retains effective oversight of Code compliance generally.

A modest number of alleged breaches of the Code have been asserted by suppliers, all of which have been thoroughly investigated and resolved. Engagement with the Groceries Code Adjudicator has been ongoing since her appointment in 2013 and quarterly meetings are held to discuss any issues and to share best practice.

Statement of Co-operative Group Board responsibilities in respect of the Annual Report and financial statements

The directors are responsible for preparing the Annual Report in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU).

The Group financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing the Group financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group’s website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial statements

So far as the directors are aware, there is no relevant information that has not been disclosed to the Group’s auditor, and the directors believe that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the Group’s auditor has been made aware of that information.

Auditors

Upon the recommendation of the Group Risk and Audit Committee, Ernst & Young LLP have expressed their willingness to be appointed and succeed KPMG LLP as auditors of the Group. A resolution to appoint Ernst & Young LLP as auditors and to authorise the directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Helen Grantham
Group Secretary
6 April 2016
Council’s Annual Statement

Introduction
Since its first report in 2014, there has been a great deal of activity within the Council and its Committees. Council met seven times in 2015 and on each occasion conducted challenging questioning to hold the Board to account. This is in accordance with one of its key roles to ensure that decisions and strategy of the Board were carried out in accordance with the Co-op’s Purpose, the Values and Principles and our Rules.

The Council, following the elections in May 2015, is now up to full strength of 100 Council members. Our Council members together form a voice for the 12 regional constituencies and continue to provide a forum in which members’ interests are represented. Council is made up of 76 individual members, including 16 colleagues, from the 12 constituencies, with 15 Council members representing our Independent Society Members and 9 seats allocated to special members (youth, Isle of Man, Co-operative Young Members’ Board and Council-appointed members to assure diversity).

President and Vice-Presidents
After elections of Council held in July, Nick Crofts was elected as President for a two year term. Marc Bicknell was appointed as Vice President (Business Strategy, Performance & Development) for a period of one year, and Dan Crowe was appointed as Vice President (Co-operative Performance, Democratic Processes & Member Voice) for a period of two years in order to allow for a yearly rotation of Vice Presidents.

Senate, Committees and ‘Task and Finish’ Groups
In July, Council also appointed 12 Senate members in addition to the President and Vice Presidents, of whom three are representatives of Independent Society Members. The Senate together provide a more regular point of contact between the Council and the Board.

The Senate has worked with the Board and also the Executive in the preparation of a Council three-year strategic plan, where the priorities of the Council are set out. The committees are the engine room of the Council activity, carrying out ‘deep dives’ into specific issues. There are three standing committees of Council: Ethics and Social Responsibility; Business Performance; and Governance. Within their respective terms of reference, these committees have established Task and Finish Groups with specific topics to review as regards Board decisions or strategy.

Areas of report from these groups include: diversity, remuneration of colleagues, business review, financial accounts and sustainability. Findings are reported to the Board for their consideration. These groups form a very important element of the Council’s role in holding the Board to account. Council members also contribute to the Food Policy Working Group, Local Sourcing Group and the Community Pilots Joint Working Group.

Upholding the Values and Principles
Council members are mindful of ensuring that their work is making a co-operative difference for our members as whole. Council members both collectively and individually are involved in many different aspects of the Co-op locally with members, regionally in supporting initiatives with community engagement managers and nationally by attendance at Council meetings. Members are able to contact the Council for information and Council is developing a more extensive communications policy. These are somewhat early days in the new governance structures and communication channels will improve over time.

Activities and achievements of Council in 2015
The Council achieved full strength with 100 Council members only in May 2015 but has been extremely quick to move forward with the work needed to hold the Board to account. The priority has been to ensure impact with the Board on the key issues which affect the Co-op as a whole and which Council knows are important to members, but doing so in a way which is collaborative and co-operative.

There are strategic issues on which the Board consults with the Council and the relationship is developing in a way which will allow for the Members’ Council to influence policy in line with our Values and Principles. It has been an objective of the Council to become more involved in ethical and sustainability policies and it is very pleased to report that Council members will be involved in a new ‘Co-op Way’ working group whose purpose it is to review policies ranging from anti-slavery to ethical supply chains; child labour to equality and diversity. This will help to embed co-operative thinking within strategic decisions at all levels.

Council meetings also provide the time for working groups to discuss and develop responses to the Board on Council’s assessments of decisions. This work is developed more deeply through the Council’s committees and ‘deep-dive’ groups which consider in detail matters such as remuneration policies, key performance indicators and sustainability reporting. Feedback from these groups is given to the Board, which in turn influences forward planning.

Over the last year Council has taken the members’ motions passed at the 2015 Annual General Meeting and been a champion of those resolutions and intentions. The members’ motions were on the subjects of political expenditure which supports the objectives of the co-operative movement; a re-affirmation of the Co-op’s commitment to the brand and working with other co-operative societies to maximise its future success; and a resolution to re-confirm the Co-op’s commitment to Fairtrade ensuring we remain the UK’s leading supermarket supporter of Fairtrade. This was the voice of members and has been integral to the work of Council to date.
Our President, Nick Crofts, was invited to address the International Co-operative Alliance Global Conference and General Assembly in November. Our Co-op is part of an international movement and it was fitting that Nick was invited to speak on the subject of the reforms to our governance. Learning from exemplary co-operatives around the world is hugely important.

The Council itself has been a vibrant place over the last year. It was very pleasing to have heavily contested elections to the Council in 2015 with lots of votes cast by our members. Diversity among Council members and candidates remains an issue on which there is more to do.

The central point of reference for the Members’ Council is the purpose of every co-operative society – to serve our members by carrying out business as a co-operative for the benefit of our members, in accordance with the International Co-operative Alliance Values and Principles.

In response to long-term requests from our members, the Council took a championing role in the local sourcing initiative for Food stores in the Yorkshire area. The aim of stocking more local produce has proved successful and is being rolled out to other parts of the UK.

In recognition that transparency regarding tax remains one of the top ethical issues for consumers, Council members championed participation in the Fair Tax Mark and encouraged our Finance team to obtain accreditation for our Co-op, which was secured in the latter half of 2015.

All the activities and impacts mentioned above will be developed in 2016 to reflect Council members’ conscientious and serious approach in representing members’ views and to carry out its fundamental governance role.
Report of the Scrutiny Committee

This is the first report from the Scrutiny Committee which was established under the Rules to oversee the adequacy of background checks and due diligence on directors and prospective directors and also to scrutinise the objectivity, transparency and fairness of the process for the:

- selection/appointment of Independent Non-Executive Directors (INEDs); and
- approval of Council-nominated Member Nominated Director (MND) candidates.

Over the Group’s 2015 financial year, the following individuals were appointed as INEDs: Allan Leighton (Chair), Simon Burke, Stevie Spring and Peter Plumb. The Scrutiny Committee has been supplied with due diligence information and background check information in respect of these appointments. The Scrutiny Committee has also questioned a member of the Transitional Search/Nominations Committee involved in the appointments. Having reviewed the candidate information and supporting evidence linked to the membership and eligibility criteria set out in the Membership Regulations and the Board Composition Charter, the Committee is able to report in its opinion:

- that the background checks and due diligence carried out on Allan Leighton*, Simon Burke, Stevie Spring and Peter Plumb were adequate; and
- that the decisions made by the Transitional Search Committee and Nominations Committee as regards these appointments were fair, transparent and objective.

* The Committee’s scrutiny of Allan Leighton’s appointment took place prior to ratification of his appointment by members at the 2015 Annual General Meeting (AGM).

In reporting to members on MND candidates selection and approval process conducted in 2015, the Scrutiny Committee comments that in the short timescale allocated for the agreement of the 2015 ballots, the process did not deliver the outcome anticipated as regards the number of candidates and contested MND elections. Though six MND candidates were selected by the Council only three were approved by the Board. All three were subsequently elected by members (albeit in uncontested elections) at the 2015 AGM: Hazel Blears, Paul Chandler and Ruth Spellman.

Having reviewed the candidate information and supporting evidence linked to membership and eligibility criteria, as set out in the MND and Member Election Regulations and the Board Composition Charter, the Committee is able to report in its opinion:

- that the background checks and due diligence carried out on Hazel Blears, Paul Chandler and Ruth Spellman were adequate; and
- as insufficient evidence was made available, the Committee was unable to determine whether the Transitional Search Committee’s approval of all Council selected MND candidates was a fair, transparent and objective process.

The Scrutiny Committee notes and welcomes the constructive dialogue between Council and Board and the agreement of a more effective and collaborative new MND process for 2016 which will address members’ concerns about the transitional process in 2015. This involves the establishment of an MND Joint Selection and Approval Committee which is a joint committee of the Council and Board.