

ClimateWise Report

Friends Life June 2012

Introduction

2011 was a year of re-structuring, splitting our operations into two distinct business units to enable us to deliver against our business strategy and mitigate risks more successfully.

From a sustainability perspective, the decision was taken that 2011 would be our new baseline year for environmental reporting against which we will be able to report trend data going forward. We were not comfortable with the accuracy of data provided for the acquired heritage businesses for 2010 due to the differing methods of capture employed. This decision was validated when, with a new robust methodology for data capture for the entire global business, the 'indicative' figure we had reported for 2010 was found to be significantly over-estimated.

Friends Life's key business products remain benefits and individual protection. As the ClimateWise principles are intended to cover the whole insurance sector, there continues to be elements that do not apply to our business model. These are primarily linked to short-to-medium term risks around the physical manifestations of climate change, which, our research shows, do not currently relate to the materiality of our more long-term products of pensions, protection and investments. However, we support all six principles and will continue to review their relevance to Friends Life.

Friends Provident was a founding member of ClimateWise, now as Friends Life we remain committed to incorporating climate change considerations into our risk, investment, governance and operational frameworks, as well as collaborating with our industry and wider society, to tackle this pressing issue.

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1 Lead in risk analysis

Sub principle	Commentary
<p>1a Support and undertake research on climate change to inform our business strategies and help protect our customer's and other stakeholder interests.</p> <p>1b Support more accurate national and regional forecasting of future weather and catastrophe patterns affected by changes in the earth's climate.</p> <p>1c Use research and improve data to inform levels of pricing, capital and reserves to matching changing risks.</p> <p>1d Evaluate the risks associated with new technologies for tackling climate change so that new insurance products can be considered in parallel with technological developments.</p> <p>1e Share our research with scientists, society, business, governments and NGO through an appropriate forum.</p>	<p>As a life and pensions provider we analyse long-term risks and opportunities arising from issues such as climate change, new technologies and advances in medical science, and their effects on morbidity and mortality, primarily in the UK and other developed countries.</p> <p>We are committed to collaborating with other life and pensions companies to develop our research on emerging risks. This is mainly achieved by our participation in the ClimateWise Health Working Group. The collaboration brief, "What does climate change mean for insurance health and protection provision?" was published in April 2012.</p> <p>From the last sustainability trends study carried out by Forum for the Future on our behalf, indirect impact on health from changing weather events was cited as a potential impact on our business strategy and these impacts are beginning to show.</p> <p>Further collaboration and research may prove useful as and when more evidence arises from insurance data or other sources.</p> <p>As we are not a general insurer we do not foresee taking a lead on the most immediate risks derived from climate change. Our research to date indicates that climate change is not yet a material factor in the life insurance and pensions industry's models for pricing, capital and reserves. A number of these principles are not applicable to the Friends Life business model. Therefore, we will not be engaging in the extensive research one would expect of other types of insurance provider.</p>

2 Inform public policy making

Sub principle	Commentary
<p>2a Work with policymakers nationally and internationally to help them develop and maintain an economy that is resilient to climate change.</p>	<p>According to our risk analysis, climate change impacts on our core business are negligible for the foreseeable future. We only engage in public policy work to support our core business and therefore, do not feel it appropriate to lobby on this particular area.</p> <p>We added our signature to and fully support the Cancun Communiqué on Climate Change.</p>
<p>2b Promote and actively engage in public debate on climate change and the need for action.</p>	<p>Our Senior Corporate Responsibility Manager is part of a panel of experts (Committee of Reference) that convene quarterly to review and update the ethical criteria for our responsible investment range of funds.</p>
<p>2c Support work to set and achieve national and global emissions reductions targets.</p>	<p>We have actively participated in the Carbon Disclosure Project as a signatory and reporting company. Our participation provides valuable, investment-relevant information to current and potential investors.</p>
<p>2d Support Government action, including regulation that will enhance the resilience and reduce the environmental impact of infrastructure and communities.</p>	<p>We have been re-accredited with the Carbon Trust Standard, demonstrating our continued efforts and success in reducing our CO2 emissions year on year.</p> <p>Our reporting on environmental performance follows GHG guidelines and our data is assured by an independent external third party.</p>
<p>2e Work effectively with emergency services and others in the event of a major climate-related disaster.</p>	<p>Physical impacts of climate change, such as storm damage or flooding are negligible for the life and pensions industry for the foreseeable future. Involvement with emergency services has no relevance to Friends Life.</p>

3 Support climate awareness amongst our customers

Sub principle	Commentary
<p>3a Inform our customers of climate risk and provide support and tools so that they can assess their own levels of risk.</p> <p>3b Encourage our customers to adapt to climate change and reduce their greenhouse gas emissions through insurance products and services.</p> <p>3c Consider how we can use our expertise to assist the developing world to understand and respond to climate change.</p> <p>3d Consider how we can use our expertise to assist the developing world to understand and respond to climate change.</p>	<p>We fully support this principle. However, there are no opportunities here for Friends Life due to the long term nature of our products not lending itself to this style of customer interaction. General insurers have a much more immediate contact with customers that makes this principle more relevant to them. Our life insurance products and services are based around morbidity and mortality risks. Currently, there is no established short-term link between these risks and climate change in the UK, and consequently no realistic opportunities to develop our products to encourage customers to adapt to climate change.</p> <p>Equally, there are no opportunities for us to use our expertise in projects such as weather risk insurance, or providing low-cost general insurance to developing countries. This is just not part of our business model or expertise, so would have no natural credibility here.</p>

4 Incorporate climate change into our investment strategy

Sub principle	Commentary
<p>4a Consider the implications of climate change for company performance and shareholder value, and incorporate this information into our investment decision-making process.</p>	<p>We are aware that the successful management of risks, including those related to sustainability; correlate to overall performance, and ultimately, shareholder value.</p> <p>Materiality Review</p> <p>Towards the end of 2010 we undertook a materiality analysis to identify and evaluate the key issues we face as a business, the matters of greatest concern to our stakeholders, and the areas where we can have most influence. The study highlighted a number of environmental (including climate change), social and governance (ESG) issues, which are relevant and material to our operations and investment strategies. In turn, the mix of results categorised in order of importance, urgency and influence, will shape direction of our overall Corporate Responsibility strategy and associated policies.</p> <p>Dedicated research and analysis</p> <p>As it relates to investment decisions in particular, we consider ESG issues alongside the financial performance of investment stock. Our major investment management houses, e.g. AXA IM have dedicated responsible investment teams that provide high-quality research and actively engage with, and make recommendations to fund managers, and the Stewardship Committee of Reference, described below. AXA IM's RI team's research and active ownership programmes focus on: Reduced CO2 emissions, enhanced preservation of environmental assets (water, forests etc.), improved human capital management and reinforced governance.</p> <p>Stewardship's independent Committee of Reference</p> <p>The Stewardship range of funds positively screens companies actively addressing climate change, for example through renewable energy or energy efficiency, and negatively screens companies with poor environmental practices.</p> <p>Stewardship distinguishes itself from other ethical fund providers by the rigour of its ethical screening process. Stewardship is the only range of funds that has an independent Committee of Reference, which is solely responsible for determining ethical criteria and the acceptability of potential stocks; informed by member's expertise, and analysis produced by F & C Investment Management team and EIRIS.</p>

4 Incorporate climate change into our investment strategies (continued)

Sub principle	Commentary
<p>4b Encourage appropriate disclosure on climate change from the companies in which we invest.</p>	<p>We encourage appropriate disclosure on ESG risk management, including Climate Change. We believe that an important first step for companies in addressing climate change risk is to publicly report these risks and their carbon emissions (through requirements to monitor performance, gather data and information, ensure the robustness of that information, etc).</p> <p>Responsible ownership model</p> <p>We encourage good governance, transparency and risk protection amongst our investments by exercising our right to vote. As explained above (4.a) our investment managers fully understand the circumstances of each company, and use this knowledge to vote accordingly. They encourage companies to provide explanations if their policies deviate from good practice, and also engage with companies both before the vote, to explain the standards we expect, and afterwards, to explain the reasons for any votes against management.</p> <p>Engagement with companies</p> <p>As well as considering stock selection against ESG risks, we recognise the need to engage with the companies in which we invest. Our investment managers maintain constructive dialogue on our behalf, encouraging companies to adopt more responsible business practices. We also encourage companies to use external indices, which leads to greater levels of disclosure.</p>

4 Incorporate climate change into our investment strategies (continued)

Sub principle	Commentary
<p>4c Encourage improvements in the energy-efficiency and climate resilience of our investment property portfolio.</p>	<p>Friends Life has little direct investment in property apart from the offices from where it runs its operations. Indirectly, F&C's PropertyGreen approach to responsible property management is applied to the Friends Life Property Fund. Through PropertyGreen, our Property Fund continues to seek to:</p> <ul style="list-style-type: none"> • Maintain safe and environmentally responsible buildings • Monitor use of energy and set targets for reduction • Use natural resources wisely • Ensure staff have a sound understanding of the issues and are aware of their own responsibilities • Encourage tenants in managed buildings to reduce their own environmental impacts. <p>F&C has a robust property investment policy, strategy, and objectives and publish progress against these in their annual property sustainability report (link to F&C's website).</p>

4 Incorporate climate change into our investment strategies (continued)

Sub principle	Commentary
<p>4d Communicate our investment beliefs and strategy on climate change to our customers and shareholders.</p>	<p>We continue to communicate our investment belief, strategy and activities to our customers and shareholders.</p> <ul style="list-style-type: none"> • Our investment asset manager, F & C routinely send out relevant communications to investment brokers. • Since the creation of Friends Life, we have made changes to improve the overall structure and rigour of our Corporate Responsibility programme. We have issued a new policy statement on climate change, which clearly sets out our approach to carbon reduction, sourcing renewable energy and offsetting. • Our new redeveloped Customer website includes an Ethical Investment section, which explains all ESG considerations, including climate change that influences our investment decisions choices. • Stewardship’s Committee of Reference conducted a series of public consultations, which in turn informed the consequent review of its policies in respect of animal welfare, extractive industries, wastes, sustainable mobility, human rights and indigenous peoples. • Customers, shareholders and the general public can receive regular updates on the performance of Stewardship funds via the fund’s monthly fact sheet. • We publicly disclose our strategy and performance via Resolution’s AR&A and our stand alone CR Report. We also communicate via external benchmarking indices, including CDP, and the BITC Corporate Responsibility index. • As the main operational business, Friends Life also informs Resolution’s participation in both the Dow Jones Sustainability and FTSE4Good.

4 Incorporate climate change into our investment strategies (continued)

Sub principle	Commentary
<p>4e Share our assessment of the impacts of climate change with our pension fund trustees.</p>	<p>The Friends Provident Pension Scheme (FPPS) Board of Trustees understand the impact of climate change. The majority of assets are managed by F&C, and a minority with Aviva – are signed up to the UNPRI and are therefore, managed in the same way described above.</p> <p>Members of our Pension Scheme are able to manage their account on-line, and are able to select how they invest their money in a wide range of funds, according to their personal circumstance. All customers have the opportunity to invest in a range of specialised funds, which take climate change considerations along side financial performance. These include, but are not exclusive to the Stewardship range of funds.</p>

5 Reduce the environmental impact of our business

Sub principle	Commentary
<p>5a Encourage our suppliers to improve the sustainability of their products and services.</p>	<p>We are committed to managing risks, and improving environmental and social performance in our supply chain.</p> <p>Ethical Sourcing Policy</p> <p>In 2010, a new Strategic Sourcing and Sustainability Policy were developed for the Group. It created a focus on sustainability throughout the procurement process, examining whole-life cost analysis, as well as environmental, social and governance criteria in the selection of suppliers. Key contracts include risk assessments against sustainability criteria. Where appropriate, management actions and improvement targets are set.</p> <p>Friends Life is an active member of the Financial Services Purchasing Forum, which is affiliated to the Chartered Institute of Purchasing and Supply. The Group focuses on responsible supply chain management, including improving the sustainability of suppliers' products and services.</p> <p>Managing Suppliers</p> <p>In 2010, we worked in partnership with our paper and print supplier, Williams Lea, to map and monitor the entire CO2 journey of our literature. Together, we carried out a marketing collateral audit. We evaluated the relative merits of recycled and certified paper and have moved to certified products.</p> <p>At our larger newly-acquired site, the Friends Centre in Bristol, we have an active environmental management partnership, Workplace Solutions, composed of facilities managers, contractors and suppliers. The partnership is composting all food waste from the restaurant area, recycling garden waste, and conducting employee education campaigns. Our site managers in Bristol, Carillion, have both reduced waste and increased recycling.</p> <p>We have also been working with our Bristol site contractors on our new Sustainable Friends campaigns, see 5d below.</p> <p>In 2011, for the first time, we off-set the emissions resulting from the air travel of the Directors of our owning company, Resolution.</p>

5 Reduce the environmental impact of our business (continued)

Sub principle	Commentary
<p>5b Measure and seek to reduce the environmental impact of the internal operations and physical assets under our control.</p>	<p>2011 was the first year we were able to report on the aggregated environmental data for the Friends Life Group, comprising the three heritage businesses. We employed an external partner, AECOM to devise a robust data capture methodology that took into account the different levels of sophistication of data capture that we had inherited, enabling us to report with more accuracy. This threw up an inaccuracy in an 'indicative' figure we had published in the previous year's CR Report, which we have since been able to address.</p> <p>2011 data is now the new baseline for our environmental reporting going forward. However, we are aware that our absolute emissions have risen compared to previous years and active steps are being taken to reduce these, aiming for a 3% reduction in 2012 compared to 2011.</p> <p>Various projects are underway, e.g. more efficient cooling system for our data centre in Dorking, to help achieve this.</p> <p>In 2011 we were re-accredited with the Carbon Trust Standard for our continued efforts and success.</p> <p>In 2011 we offset our Scope 3 emissions for 2010, which related primarily to the air travel of the Resolution Directors. Our data capture methodology for our 2011 emissions has been improved to take account of all employee business travel, which, due to the expansion of the business has shown a significant increase in Scope 3 emissions. We are currently re-examining this approach. Our primary obligation is to reduce all emissions and we do not want an offsetting approach to weaken that resolve.</p>

5 Reduce the environmental impact of our business (continued)

Sub principle	Commentary
<p>5c Disclose our direct emissions of greenhouse gases using a globally recognised standard.</p>	<p>Our reporting on environmental performance takes into account the Greenhouse Gas Protocol and data is collected according to DEFRA guidelines. For the fifth year running, we received external independent validation of our emissions figures from AECOM, with data verified to ISO 14064-3 standard.</p> <p>The latest copy of their full verification report is available in our CR micro site: http://www.friendslife.co.uk/assets/fp/cr_microsite/index.html?_requestid=1309114</p> <p>Due to the outsourcing of certain functions, some of our building has non-Friends Life employees occupying much of the space. We have taken the view that, whilst the other businesses are only engaged in Friends Life work, we will report the emissions for each building and not seek to proportion out the emissions to tenant companies.</p>

5 Reduce the environmental impact of our business (continued)

Sub principle	Commentary
<p>5d Engage our employees on our commitment to address climate change, helping them to play their role in meeting this commitment in the workplace and encouraging them to make climate-informed choices outside work.</p>	<p>Following on from last year's report, we have a firmly established volunteer network of environmentally aware 'Sustainable Friends', working with the charity, Global Action Plan, experts in environmental behavioural psychology. Our Sustainable Friends opted to focus on several campaigns in 2011, where they believed there was an issue they could address – reducing waste and increasing recycling, reducing reliance on disposable drinking cups, and turning PC monitors off at night. They produced high visibility materials to remind people about recycling, trialled a number of Keepcups to avoid using disposable, working with our catering contractors to secure discounts on drinks if cups were being reused, and used incentives and peer pressure to encourage people to switch off monitors.</p> <p>The campaign saw a 20% reduction in monitors being left switched on, and 1645 disposable cups and lids were used by the 4% of the workforce provided with a Keepcup. Recycling increased by 7%. An annual saving of over 45 tonnes of CO2 would result if these levels of success were maintained.</p> <p>The campaign has proved very successful and has been taken up at our head office, with a new network of sustainable friends. Enough Keepcups have been purchased to enable all employees to have one, aiming to almost eliminate the need for disposable cups. The network will be rolled out to further offices and success celebrated to further motivate and encourage uptake.</p> <p>This is very much a 'movement' of our employees, not a company driven initiative, which gives it greater traction. We have used this case study as an entry in the 2012 Peer Awards for CR initiatives.</p> <p>A new bike buddy scheme is now being trialled in our Bristol centre to encourage more cycling to work, reducing commuting emissions.</p>

6 Report and be accountable (continued)

Sub principle	Commentary
<p>6a Recognise at Board level that climate risk has significant social and economic impacts and incorporates it into our business strategy and planning.</p>	<p>Our main board has an executive member responsible for environmental performance. Direct impact of our business on the environment is one of our material issues as shown in our CR Report. As detailed on the overarching CSR Policy, The Group will strive to integrate environmental considerations and opportunities into:</p> <ul style="list-style-type: none"> • Working practices in areas such as energy management, waste management and resource use; • Environmental management – there must be a commitment to reduce the use of energy, water and other natural resources and implement regular maintenance and improvement programmes to ensure that the buildings operate at their optimal environmental efficiency; • Waste – the reduction of waste must be a key objective for businesses. Where possible, materials should be reused or recycled and separated for collection by specialist organisations. Where waste cannot be recycled, the disposal is in strict compliance with the law and according to the best practicable environmental option; Transport – the use of telephone, video and web conferencing as an alternative to business travel is encouraged. When business travel is necessary the mode of travel should be considered, taking into account financial impacts together with environmental, health and safety and work/life balance implications. Alternative types of low polluting transport as a means of travelling to work is encouraged. • Managing our buildings and facilities owned or managed by the Group by integrating measurable, monitored environmental actions into the Group’s business plans • Raising staff awareness to encourage and enable them to make an effective contribution to environmental improvement, both in work and within the local community; • Participating in external initiatives designed to improve environmental awareness and performance.

6 Report and be accountable (continued)

Sub principle	Commentary
<p>6b Publish a statement as part of our annual reporting detailing the actions that have been taken on these principles.</p>	<p>We report on our progress against the principles, publishing that report on the Friends Life CR Report micro-site: http://www.friendslife.co.uk/assets/fp/cr_microsite/environment/climate-change/index.html</p>