

The **co-operative** insurance
good with money

***DELIVERY OF CLIMATEWISE
PRINCIPLES BY
THE CO-OPERATIVE INSURANCE
IN 2010***



JUNE 2011

INTRODUCTION

The world's climate is changing and the scientific community is overwhelmingly of the view that human behaviour is contributing to this, leading to ongoing significant social and economic impacts.

We believe that the long-term stability of our economy depends on an appropriate response to climate change, and it is for the benefit of all, that insurance companies incorporate the risks from climate change and migrate them into our business strategies. As a result, The Co-operative Insurance joined together with the Association of British Insurers (ABI) and other businesses from the insurance sector to become signatories to a set of six principles called ClimateWise. These are that the insurance community should:

- 1. Lead in risk analysis**
- 2. Inform public policy making**
- 3. Support climate awareness amongst our customers**
- 4. Incorporate climate change into our investment strategies**
- 5. Reduce the environmental impact of our business**
- 6. Report and be accountable**

The Co-operative Insurance is one of the businesses along with The Co-operative Investments, and The Co-operative Bank including *smile* and Britannia making up The Co-operative Financial Services group, which is itself part of The Co-operative Group the UK's largest consumer co-operative. As such many of the initiatives undertaken are done in partnership with other parts of the group. As a group The Co-operative Group has, arguably, done as much as any other UK business to tackle its contribution to climate change.

Below is a detailed report on what actions The Co-operative Insurance has taken against each element of these principles up to the end of 2010, either through initiatives delivered as a single entity or as part of the group of companies listed above.

The report can be also found on our website, goodwithmoney.co.uk.

1 LEAD IN RISK ANALYSIS

1a Support and undertake research on climate change to inform our business strategies and help to protect our customers' and other stakeholders' interests.

Since 2008, when The Co-operative Financial Services and WWF-UK had jointly published the report 'Unconventional Oil: scraping the bottom of the barrel?', we have been continuing to research and debate the social, environmental and financial risks associated with unconventional oil. In July 2010, CFS and WWF published a report 'Toxic Fuels – Toxic Investments: why we need mandatory greenhouse gas reporting', which covered the carbon costs, risks and liabilities of tar sands expansion, and how mandatory GHG reporting could assist investors to factor and help the shift to a low carbon economy.

Research such as the project outlined above plays an important role in informing and shaping our business strategies, including our Ethical Policies that guide investment activities (please also see section 4a below), internal environmental management (please see section 5b) and relationships with our suppliers (please see section 5a).

1b Support more accurate national and regional forecasting of future weather and catastrophe patterns affected by changes in the earth's climate.

We worked with the UK Climate Impacts Programme to develop a web based 'Climate Change Tracker' which enables people to see the projected impacts of climate change (e.g. higher temperatures, greater flood risk, etc.) in the region of the UK within which they live.

1c Use research and improve data quality to inform levels of pricing, capital and reserves to match changing risks.

To support our pricing and capital strategy a number of different scientific reports are utilised to ensure that The Co-operative Insurance's view reflects the latest scientific data. Accordingly, to reflect the impact of climate change, global pricing of flood and subsidence is loaded to reflect the increasing occurrence of these risks. For pricing at individual postcode level, we use third party software to provide information on flooding and weather patterns. This software does not currently include the impact of climate change, as the research done into the effect of climate change on frequency and severity of windstorm and flood risks is still too imprecise

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.

The motor industry has developed a number of different types of more environmentally friendly vehicles over the last few years. Hybrid and LPG fuelled cars are both accepted by The Co-operative Insurance, and to support LPG we do not charge a higher premium, despite the higher repair cost (because of the need to remove the gas cylinder first). We also accept Electrical vehicles, with the exception of some types of Quadricycles (they do not meet required safety standards).

In light of the further developments in Electrical vehicles we are continually reviewing our underwriting footprint, and have extended our footprint to accept most of these latest generation vehicles for business. The ABI Group Rating Panel, on which The Co-operative Insurance is a panel member, also discussed fully electric vehicles on a number of occasions and has invited several vehicle manufacturers to their meetings to discuss the new fully electric models they are planning to launch.

Due to there not being an accredited body for performing biofuel conversions, and the number of 'home conversion kits' for converting to biofuel, we do not currently offer car insurance to vehicles fuelled by biofuel. This position is also due to concerns we have regarding the current sustainability of biofuels where stricter sustainability criteria are needed, and also the limitations on the amount of biofuel

that can be produced sustainably using current technology needs to be recognised.

We have evaluated the risks associated with carbon offsets and assessed that they have an important contribution to make, hence all The Co-operative Insurance's Private Motor policies have a 20% offset of the car's CO₂ emissions. During 2010 this has resulted in The Co-operative Insurance offsetting £1.23m.

Supporting the generation of renewable electricity, as long as the devices meet structural requirements, both 'free standing windmill powered turbines' and wind turbines attached to a building will be accepted for business by The Co-operative Insurance.

1e Share our research with scientists, society, business, governments and NGOs through an appropriate forum.

Since 2008, when The Co-operative Financial Services and WWF-UK jointly published the report 'Unconventional Oil: scraping the bottom of the barrel?', we have been researching and debating the social, environmental and financial risks associated with unconventional oil. This has been followed up in 2009 with the launch of our Customers Who Care campaign on 'Toxic Fuels', which involved meetings with UK MPs and the Canadian High Commissioner regarding the dangers of tar sands expansion. We have continued to pursue these political channels, calling for legislation on carbon liability disclosure for oil and gas companies, and in July 2010, The Co-operative Financial Services published a report 'Toxic Fuels – Toxic Investments: why we need mandatory greenhouse gas reporting', which it sent to ministers at Defra and BIS. The report's findings were also presented at an All Party Parliamentary Climate Change Group event in Westminster to MPs, civil servants, NGOs and business groups. We have also presented this research to institutional investors ahead of shareholder resolutions at BP and Shell.

We are a founder member, and steering committee member, of the Institutional Investors Group on Climate Change (IIGCC), and are also a Signatory Investor in the Carbon Disclosure Project (CDP).

In 2009 we became a founding signatory to the Forest Footprint Disclosure Project (FFDP) which asks companies with significant exposure to forest products in their supply chain to understand, manage and reduce their impact; forestry being a critical component of any concerted policy efforts to stay on a 450 parts per million pathway and thereby avoiding dangerous climate change. In 2010 we completed our first year of serving on the steering committee where we had input into and editorial oversight of the inaugural report and second annual reports and undertook engagement, as an investor in our own right, with companies lagging best practice.

We respond to requests for flood claims data from students at bachelors, masters and PhD level for research projects in areas such as Real Estate Management.

Representatives gave presentations on the business' work on climate change at 30 national conferences and events in 2010 to an estimated combined audience of over 5,000 people.

2 INFORMING PUBLIC POLICY MAKING

2a Work with policy makers nationally and internationally to help them develop and maintain an economy that is resilient to climate risk.

In 2009, we campaigned successfully with the Renewable Energy Association and Friends of the Earth on their 'Feed-in Tariffs' campaign that called upon Government to introduce measures for Feed-in Tariffs (FITs) for small and community scale renewable energy installations within the Energy Bill. Feed-in Tariffs give a fixed price for every unit of renewable energy produced and exported, allowing households and offices to earn money for the renewable energy generated. Additionally, we submitted a response to a consultation from the Department for Energy and Climate Change (DECC) calling for the Renewable Heat Incentive to be deployed more urgently. FITs were successfully introduced in April 2010. In May 2010, a letter was written to the new Secretary of State for Energy and Climate Change expressing support for FITs and the principle of the Renewable Heat Incentive (RHI). The Co-operative co-signed a letter to the Prime Minister in September 2010 calling for the introduction of the RHI and contributing £2,500 to a parliamentary lobby event in October 2010, attended by MPs of all main parties. The Co-operative also co-signed to a letter to Lord Goodlad, Chair of the Merits Committee in June 2011 calling for greater scrutiny of the modifications to the Standard Conditions of Electricity Supply Licences.

The Co-operative has also been campaigning for changes to Article 7a of the Fuel Quality Directive (Europe's Low Carbon Fuel Standard), which sets a mandatory 6% reduction target for the GHG gas emissions of EU transport fuels by 2020. However, by treating tar sands oil the same as conventional oil, the increased emissions from tar sands will potentially negate claimed emissions reductions. In response, The Co-operative formed a coalition with WWF and other NGOs to campaign to 'Keep tar sands out of Europe'. Extensive engagement has taken place, including work with MEPs to table questions to the Commission, and a meeting with the UK Minister for Transport to advise of the inadequacy of current proposals. An EU citizen's petition to 'keep tar sands out of Europe' was also organised and presented to the European Parliament in spring 2011.

During 2010 and into 2011, The Co-operative has joined other groups in an UKSIF (UK Sustainable Investment and Finance) led call to the Prime Minister on the Green Investment Bank, and how this could and should operate.

We jointly hosted a community energy workshop with the Commission for Rural Communities and submitted the resulting position paper to DECC's Renewable Electricity Financial Incentives consultation.

In October 2010, at the request of The Co-operative Financial Services and WWF, cross-party MPs tabled an Early Day Motion (EDM) calling on the Government to introduce mandatory GHG reporting for all large companies by April 2012 as required by the Climate Change Act. Over 4,500 CFS customers and WWF supporters were mobilised to contact their MP to sign the EDM via

CFS' Toxic Fuels website. In December 2010, The Co-operative, WWF and The Aldersgate Group organised an open letter to the Government (co-signed by 30 other businesses and civil society groups) calling for the introduction of reporting by 2012.

We contributed to a position paper on climate change and local planning as part of a coalition of organisations led by the Town and Country Planning Association. The paper was launched at a Parliamentary event.

The Co-operative supports the proposal to establish an independent, permanent and self-financing UK Green Investment Bank as a means to accelerate the UK's transition to a low carbon economy and, in particular, has highlighted the importance of funding for community-scale renewables to deliver a diversified energy supply. The Co-operative has added its name to public statements issued by Transform UK, the umbrella group of NGOs and businesses campaigning for a Green Investment Bank. In December 2010, The Co-operative Bank Social Banking Unit submitted oral evidence to the Environment Audit Committee. In February 2011, CFS joined seven other institutional investors as co-signatory to a letter to the Prime Minister that expressed a willingness to consider purchase of bonds issued by the Green Investment Bank in line with conventional investment criteria.

In November 2010, The Co-operative signed the 'Cancun Communiqué on Climate Change' which urged political leaders at the United Nations Climate Change Conference in Cancun, Mexico, to press for: robust financial and policy support for energy-efficiency measures, strong policy support and fast-track funding for low carbon energy systems, greater financial and policy support for emissions capture and storage, increased effort on tackling other GHG emissions and addressing the carbon emissions impact of urban planning, land use management and land use change.

2b Promote and actively engage in public debate on climate change and the need for action.

In early 2010, we sponsored a YouGov survey of 2,000 people in partnership with the Renewable Energy Association and Friends of the Earth. The survey demonstrated significant public support for generous Feed in Tariffs ahead of their introduction in April 2010.

The Beaver Lake Cree Nation is a small, indigenous community in Alberta, Canada, whose reserve home and ancestral lands are being destroyed by tar sand developments, impacting upon their traditional way of life. The Beaver Lake Cree have constitutionally protected treaty rights to hunt, fish and gather plants and medicines within their ancestral lands and have therefore commenced a legal challenge to enforce recognition of these rights and to protect the ecological integrity of these lands. Citing over 17,000 infringements of their rights, they are seeking injunctions against new developments. CFS has supported their cause since February 2009, and donated or fund raised £250,000 for a charitable trust set up to support their legal action, which could halt tar sands expansion. The Co-operative Financial Services has been regularly updating its customers on the Beaver Lake Cree's battle and the climate change risk posed by tars sands expansion via campaign leaflets included with bank statements. In 2010, to raise

public awareness and encourage debate The Co-operative supported the UK release of the films Dirty Oil, H2Oil and Petropolis about the tar sands, and hosted the world premiere of Dirty Oil, which was screened live via satellite to 25 cinemas around the UK, reaching an audience of thousands. The Co-operative also launched the touring street gallery Tarnished Earth, showing photographs of the devastation caused by tar sands developments. This was displayed on London's South bank in September and is currently touring the UK. To date, the exhibition has been seen by over 1 million members of the UK public.

In December 2010, The Co-operative undertook a survey of 320,000 customers asking the question "should large businesses report their GHG emissions?"; 72% of customers agreed.

In 2009 a representative from the group was elected by the membership of the Institutional Investor Group on Climate Change to its steering committee, which feeds into the IIGCC's policy statements. The IIGCC launched a detailed investor statement setting out investors' requirements to help usher in a low carbon future and hosted a related event at the Copenhagen conference. The IIGCC has issued several communiqués and held high-level dialogues with EU commissioners on climate change policy in 2010 following Copenhagen and is recognised as the authoritative voice for investors on climate change in Europe, its work featuring regularly in the Financial Times. For example, in November 2010 the IIGCC issued a statement signed by investors representing \$15 trn of assets under management entitled Climate Change: Reducing Risks, Seizing Opportunities & Closing the Climate Investment Gap, as well as position papers on shifting private capital to low carbon investment, effective carbon markets and energy efficiency in buildings, respectively, all of which were supported by media campaigns.

Representatives gave presentations on the business' work on climate change at 30 national conferences and events in 2010 to an estimated combined audience of over 5,000 people.

2c Support work to set and achieve national and global emissions reduction targets.

The Co-operative Group supports the EU's fuel quality standard that penalises fuel sources entering the market with excessive emissions. This is consistent with The Co-operative Financial Services' support that a strong, fair and efficient EU Emissions Trading Scheme is part of an effective strategy against dangerous climate change, and will give more certainty to businesses about how they should adapt.

During 2010 and into 2011, The Co-operative has joined other groups in an UKSIF (UK Sustainable Investment and Finance) led call to the Prime Minister on the Green Investment Bank, and how this could and should operate. Further to previous communications to Prime Minister Brown, we also joined 30 major UK businesses in asking the EU to adopt a 30% mid-term emissions reduction target by 2020.

In November 2010, The Co-operative signed the 'Cancun Communiqué on Climate Change' which urged political leaders at the United Nations Climate Change Conference in Cancun, Mexico, to press for: robust financial and policy

support for energy-efficiency measures, strong policy support and fast-track funding for low carbon energy systems, greater financial and policy support for emissions capture and storage, increased effort on tackling other GHG emissions and addressing the carbon emissions impact of urban planning, land use management and land use change.

2d Support Government action, including regulation that will enhance the resilience and reduce the environmental impact of infrastructure and communities.

We support Government action on climate change including regulation, and have participated in a number of Government consultations concerning legislation, industry standards and targets during 2010 (much of this is undertaken on our behalf by our parent The Co-operative Group). We are always supportive of meaningful Government action on climate change and are constructive if criticism is required or if the proposed action is not robust enough. Examples include our responses to:

- A Department of Energy and Climate Change (DECC) consultation on 'carbon units, the net UK carbon account and carbon accounting'.
- A consultation from the DECC calling for the Renewable Heat Incentive to be deployed more urgently.
- A Department of Business Innovation and Skills (BIS) consultation on the future of narrative reporting, calling for mandatory GHG reporting for large businesses and narrative reporting on future carbon risks.

In May 2010, a letter was written to the new Secretary of State for Energy and Climate Change expressing support for Feed-in Tariffs and the principle of the Renewable Heat Incentive (RHI). The Co-operative also participated within the FOE and REA led RHI campaign coalition, co-signing a letter to the Prime Minister in September 2010 calling for the introduction of the RHI.

2e Work effectively with emergency services and others in the event of a major climate-related disaster.

While The Co-operative Insurance does not do any work directly with emergency services, it operates a catastrophe plan to specifically deal with severe weather events. This plan ensures that we are able to provide our policyholders with a high quality service during stressful periods such as following a severe flood.

3 SUPPORT CLIMATE AWARENESS AMONGST OUR CUSTOMERS

3a Inform our customers of climate risk and provide support and tools so that they can assess their own levels of risk

Through the launch of new products, and the provision of environmental literature with its product documents The Co-operative Insurance provides its customers with information on how to be more environmentally friendly. Examples are:

- We were the first insurer to offer an ecoinsurance motor policy (launched in June 2006). This policy gave the policyholder the ability to offset some of the carbon footprint associated with their car usage. In 2008, we took the decision to offset 20% of omissions from all private motor policies.
- Ten tips to save energy within the household and help turn it into a 'Green Home' are included within our Home insurance promotions on our website;
- The Co-operative membership climate change challenge campaign

3b Encourage our customers to adapt to climate change and reduce their greenhouse gas emissions through insurance products and services.

We have evaluated the risks associated with carbon offsets and assessed that they do have an important contribution to make to climate change. Consequently, in June 2006 we became the first insurer to launch an ecoinsurance motor policy, which offsets 20% of omissions from the car insured. Following this we took the decision that 20% of the carbon footprint associated with all our Private Motor customers' car usage is offset (£1.23m offset in 2010). At the start of 2009 we have also launched a Pay-As-You-Drive policy, rewarding low mileage drivers, following this up in 2010 with a telematics policy designed for young drivers, rewarding safe driving (reducing the need for repairs) as well as low mileage.

Customers coming onto our website to obtain a motor or home insurance are given details of how the motor product can help the environment – carbon off-setting, responsible repair network and Ethical Engagement Policy. While customers looking for home insurance can view 10 tips to turn their house into a 'Green Home', for example insulate your loft, or buy 'green electricity'.

Should repairs be required following a motor claim, we promote a responsible repairer network, and offers repair of bumpers, rather than replacement. We also pay a fee per repair to assist in the disposal of waste in an environmentally responsible way. Our repair network works to the BSI PAS 125 standard to ensure that our vehicles are repaired using industry compliant procedures.

3c Increase the proportion of repairs that are carried out in a sustainable way through dialogue with suppliers and developers and manage waste material appropriately.

The Co-operative Insurance actively promotes a repair first policy with our approved repairer network and constantly monitors the repairers 'Repair over Replace' performance, the objective is to reduce the proportion of new parts used in repairs to vehicles that are the subject of a motor claim. The policy covers the following claims issues:

- The financial reward of approved repairers for achieving agreed targets in the reduction of parts used during the repair process. This initiative has led to 20% increase in the repair of car body panels;
- Within the motor industry we are experiencing an increased level of plastics used within the constructions of motor vehicles. We have an initiative that promotes repair of these components, where we pay the repairer 50% of the cost of the part for repairing plastic components that would have been replaced. 1 Tonne of plastic waste equates to 20 cubic meters in volume, with over 17 tonnes of plastic components being repaired per year;
- We have developed our plastic repair initiative that increases repair to replacement ratio of plastic components. This has been achieved by setting performance reward targets with our approved repairer network, these targets are driven and monitored by Network managers
- All suppliers are actively encouraged to develop and implement their own environmental action plans; assistance and guidance given as required.

We have been involved with Thatcham and other insurers to try and establish a robust supply line with the vehicle recycling industry regarding recycled parts. Until the industry can deliver the necessary quality of supply on a national basis, we will continue with our current successful process of working individually with our repairs to source locally the necessary recycled parts.

The Co-operative Insurance also actively encourages environmental friendly processes within its motor supply chain. We do this through the following areas:

- A contribution of £152,000 was paid to our approved repairer network during 2010 to ensure EPA compliant disposal of waste.
- External suppliers are vetted during the procurement process to establish environmental legislation conformity.
- Suppliers are audited on their environmental policies through our supplier management process and given guidance on recycling initiatives. This process has encouraged our salvage agent to introduce new fuel reduction initiatives into their fleet transport operations
- We are currently working with our approved repairer network to implement a complete waste recycling and management process that will result in all of the waste produced in the repair process being collected and recycled through a centralised recycling partner.
- We are currently carrying out a bodyshop carbon usage audit in collaboration with an energy efficiency advisory partner, with a view of actively reducing the repairs carbon emissions by introducing new technology and sustainable repair procedures.

3d Consider how we can use our expertise to assist the developing world to understand and respond to climate change.

We are actively involved in a number of high quality offset projects within the developing world that underpin our 'beyond carbon neutral' status and are a component of our ecoinsurance car insurance product and our mortgages. We are committed to offsetting as we recognise the economic, social and environmental benefits and the transfer of technologies that it offers to the developing world.

In 2010, we offset over 204,200 tonnes of carbon dioxide through offsetting projects delivered by Climate Care, such as the following:

- Rainforest re-forestation in Kibale Forest Park, Uganda, employing 400 people in peak season and providing a number of biodiversity benefits.
- Forest protection in Kasigau, Kenya, through providing local communities with alternatives to slash and burn agriculture and so maintaining the forest as a carbon stores and a wildlife corridor between two national parks.
- Efficient cooking stoves in Cambodia that help to reduce both respiratory illnesses from burning wood indoors and deforestation associated with the collection of fire wood.
- Treadle pumps in West Bengal and Uttar Pradesh, India, that provide a more sustainable method to irrigate fields than use of diesel-powered pumps, and can be used all year round, providing additional income to farming families.
- A wind farm in Coimbatore, India, generating electricity from a renewable source instead of the typical coal power that is highly carbon intensive and non-renewable.

4 INCORPORATE CLIMATE CHANGE INTO OUR INVESTMENT STRATEGIES

4a Consider the implications of climate change for company performance and shareholder value, and incorporate this information into our investment decision-making process risk

As a co-operative business, ethical values are at the core of our business. In June 2005, The Co-operative Insurance became the world's first insurance company to launch a customer-led Ethical Engagement Policy to guide the social, ethical and environmental aspects of its investments (the full policy can also be seen on this website). This does not mean we refuse to invest in certain business activities. It means that we will invest in most companies but use our influence as a shareholder to improve the ethical and environmental performance of such businesses in line with our customers' views. We do this in a number of ways including:

- Private meetings with senior management;
- Voting at the Annual General Meetings (AGMs) of companies;
- Correspondence with the company urging change

One of the sections of the policy relates entirely to work on achieving "Environmental Sustainability", and states that we will encourage businesses to reduce pollution and their environmental impact, and in particular:

- reduce reliance on fossil fuels - which contribute to climate change - and increase their use of renewable energies and energy efficiency;
- end the production of chemicals that nature cannot easily breakdown and which build up and contaminate plants and animals;
- end the exploitation of nature - which results in the loss of plants and animals and their surroundings - and consider more sustainable natural products and services.

As well as championing customers' concerns, we have integrated our approach to social and environmental issues into the investment decision-making processes. This is achieved in a number of ways:

- A process to specifically identify companies making an opportunity out of climate change, has now been formalised and has led to our funds holding a range of stocks where we believe climate change to be the primary driver for their growth.
- Social and environmental risk management, including approach to dealing with climate change where relevant, is factored into company analysis and stock selection. Sector specific environmental and social issues that the companies in a sector face are identified. Companies are then scored on these issues and on general environmental and social risk management to provide us with a view on how each company compares to its peers.
- Engagement with companies under the Ethical Engagement Policy provides a more thorough understanding of the quality of company management. This knowledge is also factored into our view of companies.

In 2009 we used a paper summarising the science and policy response options on climate change to educate internally on the financial materiality of climate change. In 2010 and 2011 we built on this integration by getting financial analysts and the head of research to attend investor-oriented meetings and roadshows themed around climate change.

The Co-operative Insurance is a signatory to the UN Principles of Responsible Investment and supports climate change related initiatives where merited, for example, calling on DECC to make its Green House Gas disclosure protocol mandatory for large companies rather than voluntary, as had been indicated. We remain first or second quartile in all six UN-PRI principles the asset manager group in terms of upholding our commitments.

4b Encourage appropriate disclosure on climate change from the companies in which we invest

Our Investments department operates under our Ethical Engagement Policy, (see section 4a above). This ensures that we take an interest in ensuring full disclosure on a company's approach to managing all relevant social and environmental risks, including climate change that the company faces. We have a policy of always supporting climate change-related shareholder resolutions (unless there are compelling reasons not to) and in 2009 we formalised a comprehensive climate change voting policy in respect of management resolutions, committing to more demanding stance on climate change, where voting support will be withheld from companies whose reporting on climate change is inadequate relative to their impact. Accordingly, during the 2010 reporting season we did not support 47 reports and accounts owing to SEE and climate concerns, an increase on the previous year. Where improvements can be made, we write to the company offering advice and explaining our voting intention. We use the Carbon Disclosure Project database as a primary information source. We also supported 56 shareholder resolutions asking companies to adopt higher standards on climate change.

In 2010 for example, one engagement sought to raise awareness of supply chain dependence and impact on forests, centring on those companies in which we have holdings that did not complete the Forest Footprint Disclosure survey in 2009. In a number of cases this has led to companies agreeing to participate in the survey.

In June 2009 The Co-operative Financial Services led a collaborative investor letter to companies operating in the Canadian oil sands. Backed by \$3 trillion of assets, the letter set out investors' concerns about the financial and political risks surrounding oil sands and setting out their key expectations in terms of mitigation actions responsible companies should take. In 2010 we led with FairPensions shareholder resolutions at Royal Dutch Shell plc and BP plc 2010 AGMs, asking each company to justify how their existing and planned oil sands developments would withstand different macro-economic scenarios; in particular a more carbon-constrained world. The process leading up to the resolutions in 2010 led to both companies making unprecedented and significant disclosures about their oil sands operations, including their assumed carbon price. The resolutions also attracted considerable media interest helping to raise the profile of the issue both with investors and the general public.

4c Encourage improvements in the energy-efficiency and climate resilience of our investment property portfolio

The Co-operative Insurance's property portfolio is covered by a contract that stipulates that "...all proposed acquisitions will be assessed for a BREEAM rating with a target rating of 'Very Good'. Where properties are purchased which have a lesser BREEAM rating the manager will endeavour to achieve the required rating when refurbishing/redeveloping the property." The property management company nominated by our property investment managers have agreed to implement a range of sustainability targets for the portfolio including the sourcing of 100% renewable power wherever possible and methods of sharing with tenants the cost-saving benefits of energy efficiency measures. This commitment was maintained in 2010 and in 2011 we will seek to update the performance conditions in respect of social and environmental issues, including GHG and other climate relevant emissions like refrigerants to ensure the portfolio represents good practice.

4d Communicate our investment beliefs and strategy on climate change to our customers and shareholders

As a co-operative business, we have a duty to operate in a socially and ecologically responsible manner. Every year we produce a sustainability report providing an open and honest account of our co-operative, social and ecological performance. We seek to run our business in a way that satisfies the needs of our Partners – our customers, members, staff, suppliers, local communities and the Co-operative Movement – whilst always taking into account our impact on wider society and the environment. Our sustainability performance is reported against a series of indicators that includes everything from socially responsible investment and financial inclusion to our impact on climate change. This provides Partners with a detailed picture from which they can judge our performance and provides us with a useful tool to drive sustainability through the business.

The Co-operative Insurance discloses its shareholder engagement and voting record, and the beliefs and policies which drive them, plus its overall investment strategy with regard to social, environmental and ethical issues, via The Co-operative Group annual sustainability report, which is subject to rigorous independent third party verification.

Other ways in which we communicate our investment beliefs and strategy on climate change are:

- Our website provides detail of engagement work online;
- Specifically we have published quarterly and annual reviews of Responsible Investing, in which climate change features heavily for the last 2 years. Recent reviews have included a synopsis of the Cancun agreement and what negotiations means for investment, as well as the ability to tie corporate bonds to climate performance;
- Our Ethical Engagement Policy and consultation with customers;
- Climate change within our press strategy, e.g. biofuels, unconventional fossil fuels, The Good Companies Guide with the Observer;
- Climate related features in customer magazines.

4e Share our assessment of the impacts of climate change with our pension fund trustees

Reports to our pension fund trustees contain information regarding our position on climate change, including numerous examples of companies we hold due to their contribution to tackling climate change.

In section 4a above we discussed our Ethical Engagement Policy, which shows that we seek to run our business in a way that satisfies the needs of its Partners, including pension fund trustees, and takes into account our impact on the environment. Our sustainability performance is reported against a series of indicators that includes everything from socially responsible investment and financial inclusion to our impact on climate change, providing further information to the trustees.

5 REDUCE THE ENVIRONMENTAL IMPACT OF OUR BUSINESS

5a Encourage our suppliers to improve the sustainability of their products and services.

Since February 2004, we have implemented a set of sound sourcing practices to address matters of ethics and the environment for goods and services not for resale. This is delivered via our Sustainable Procurement and Supplier Policy (SPSP). The SPSP commits us to 'working with suppliers and partners who can make a positive contribution to our pursuit of sustainable development.' We will support companies and activities that utilise renewable energies and manage resources efficiently. It will also support companies that reduce reliance on minerals (and their by-products) that have a tendency to systematically increase in nature, such as fossil fuels. Where our review of the standards in place

indicates that improvement is necessary, we will agree with the supplier a programme to deliver this and to sustain such developments, or pursue alternative supply arrangements.

The Co-operative Insurance also works specifically with suppliers of services to its General Insurance claims processes. This is concentrated in four areas:

1. *Repair over replace.* Approved repairers are financially rewarded for achieving agreed targets in the reduction of parts used during the repair process. This initiative has led to a 15% increase in the number of body panels repaired.

Within the motor industry we are experiencing an increased level of plastics used within the constructions of motor vehicles. We have recently rolled out a new plastic repair initiative, which will result in an increased repair to replacement ratio. To enhance this new initiative we pay the repairer 50% of the cost of the part which would have been replaced, with around 13,000 bumpers replaced a year.

2. *Use of recycled parts.* We have been involved with Thatcham and other insurers to try and establish a robust supply line with the vehicle recycling industry regarding recycled parts. Until the industry can deliver the necessary quality of supply on a national basis, we will continue with our current successful process of working individually with our repairs to source locally the necessary recycled parts.
3. *Environmental management.* We actively encourage better environmental management, within our motor repair supply chain. Practical examples include a contribution of £152,000 being paid to our approved repairer network during 2010 to ensure correct disposal of waste. Suppliers are also audited on their environmental policies through our supplier management process and given guidance on recycling initiatives.
4. *Environmental partnerships.* The introduction of waste management and recycling partnerships, and the introduction of carbon usage audit /reduction programme within our motor supply chain.

5b Measure and seek to reduce the environmental impact of the internal operations and physical assets under our control.

We measure the impact of our operations and physical assets and reports publicly on an annual basis in its independently verified Sustainability Report (see link below this paragraph). We are also the only financial services body worldwide to be certified to the environmental management standard ISO14001 on a company-wide basis (see BSI link below).

www.co-operative.coop/sustainabilityreport

www.bsi-global.com/en/Assessment-and-certification-services/Client-directory/CertificateClient-Directory-Search-Results/?pg=1&licencenumber=EMS+67341&searchkey=licenceXeqX67341

Key environmental achievements include:

- Overall greenhouse gas emissions connected with CFS premises, transport and refrigerants were 20% lower in 2010 compared with a 2006 baseline.
- 97% of the electricity supplied to us in 2010 was obtained from good quality renewable sources.
- In 2010 we maintained our 'beyond carbon neutral' status by offsetting all of our remaining operational and business travel emissions from non-renewable energy sources, together with an extra 10% to cover legacy emissions.
- In 2003, we became the first institutional property investor to transfer all contracts held for its £2bn investment property portfolio to green electricity.
- In 2006, The Co-operative Insurance commissioned the UK's largest PV system (350kWp capacity).

The success of our internal climate change and energy policies have been externally recognised. In June 2010, CFS outperformed 110 financial institutions from 44 countries to win the 2010 Financial Times Sustainable Bank of the Year award. This award recognised an embedded and broad approach to sustainability.

5c Disclose our direct emissions of greenhouse gases using a globally recognised standard.

We disclose our direct emissions of greenhouse gases within the annual sustainability report of The Co-operative Group. This report is prepared in accordance with the Global Reporting Initiative's G3 Sustainability Reporting Guidelines, which provide a globally recognised framework for reporting on an organisation's economic, social and environmental performance.

The data and commentary within this Report is assured by a specialist independent auditor (Two Tomorrows) in accordance with the AA1000 Assurance Standard. This requires the report to be considered in relation to the principles of completeness, materiality and responsiveness.

Fuel and transport data is converted into Total Direct GHG emissions in accordance with Defra's Environmental Reporting Guidelines for Company Reporting on greenhouse gas emissions.

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.

New staff are provided with a 'welcome pack' when they join the company, this helps them to understand, among other matters, our ethical, environmental and community activities. Environmental training is undertaken as part of our Environmental Management System, which is ISO14001 certified. Alongside scheduled training, the Social Goals Team provides advice to The Co-operative Insurance on areas such as product development and procurement.

All employees receive regular briefings on our work to reduce its greenhouse gas emissions, notably, when new products are launched that have an environmental focus, when new projects are initiated such as the installation of PV panels, whenever we receive awards for our environmental performance and when the annual Group Sustainability Report is published. Articles are placed on The exchange (the staff intranet) and in the know (the staff magazine).

6 REPORT AND BE ACCOUNTABLE

6a Recognize at Company Board level that climate risk has significant social and economic impacts and incorporate it into our business strategy and planning

As a co-operative business, we believe in ethical values, and these are central to The Co-operative Insurance, The Co-operative Financial Services and The Co-operative Group's long-term strategies. For example, The Co-operative Financial Services was named 'world's most sustainable bank' by the Financial Times. Additionally, within the Sunday Times Best Green Companies Survey, The Co-operative was the highest placed retailer and financial services body.

The impact of The Co-operative Group's operations and physical assets on the environment are measured, and this is reported publicly on an annual basis in its independently verified Sustainability Report (see link in previous section). In 2010, the Report's independent assurance provider heralded it as 'maintaining its commitment to sustainability in terms of the extent to which sustainability is integral to its business model and the transparency with which it reports on its sustainability impacts and programmes.' This is an award winning report, with the 2009 Report (published in 2010) ranked first in the 'Credibility through Assurance' category, and runner up in the 'Openness and Honesty' category at the international Corporate Register Reporting Awards. It has also been checked by the Global Reporting Initiative (GRI) to be consistent with a GRI G3 application level of A+; the Group believes that, at the time of going to print, no other UK company from the food retail, bank or insurance sectors had produced an A+ report.