

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

***DELIVERY OF CLIMATEWISE
PRINCIPLES BY
THE CO-OPERATIVE INSURANCE
IN 2008***



JUNE 2009

INTRODUCTION

The world's climate is changing and the scientific community is overwhelmingly of the view that human behaviour is contributing to this. Climate change is already having significant social and economic impacts and will continue to do so.

The insurance sector enables businesses and individuals to manage risk, including long-term threats such as climate change. We believe that the long-term stability of our economy depends on an appropriate response to climate change, and it is to the benefit of all that insurance companies incorporate the risks from climate change and the need for migration into our business strategies.

As a result, in 2007 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**

There now follows a detailed report on what actions The Co-operative Insurance has taken against each element of these principles in 2008, either through initiatives delivered as a single entity or as part of The Co-operative Financial Services the name for the group of businesses that includes The Co-operative Insurance, The Co-operative Investments, The Co-operative Bank and its internet bank *smile*.

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.

In 2008, The Co-operative Financial Services and WWF-UK jointly published the report 'Unconventional Oil: scraping the bottom of the barrel?' examining the social, environmental and financial risks associated with unconventional oil. The report recommended oil companies report on the environmental and social risks associated with their unconventional oil operations, including carbon emissions, boreal forest and local community impacts, water intensity and long-term toxic waste management, and publicly disclose strategies for mitigating these risks. In September 2008, we presented the report to 60 attendees from over 20 institutions at an investor event organised by the UK Social Investment Forum.

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.

In 2007, 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. The Climate Change Tracker can be found at: www.climatechangetracker.com.

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

To support its pricing and capital strategy a number of different scientific reports are utilised, including regular reviews of the internet to ensure that The Co-operative Insurance's view reflects the latest scientific data. Accordingly, to reflect the climate changes underway, global pricing of flood and subsidence is loaded to reflect the increasing occurrences of these risks. For individual pricing (where global pricing is amended based on locality – by postcode), we use a third party's software to provide information on each postcode, e.g. flooding, and weather patterns. This software does not currently include 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 (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).

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 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 since the 24th February, 2008 all Private Motor policies now include a 20% offset of the car's CO₂ emissions.

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.

The Co-operative Financial Services continued its successful campaign with Friends of the Earth in 2008 as part of 'The Big Ask' for legally binding climate change targets in the Climate Change Bill and subsequently the Climate Change Act, with every single MP in the country contacted by our customers. This included writing to MPs in support of increasing the UK's greenhouse gas reduction target to 80% and for international aviation and shipping to be included. MPs were also asked to sign Early Day Motion 2233 and to contact the Department of Energy and Climate Change to indicate support.

In February 2009, The Co-operative Financial Services launched its new Customers Who Care campaign on 'Toxic Fuels'. In partnership with WWF-UK, the campaign will highlight the environmental and financial risk associated with unconventional fossil fuels such as Canadian tar sands and US shale oil and call for a halt to expansion plans for their exploitation. The campaign was launched at a Co-operative Financial Services and WWF-UK protest outside the Canadian Embassy, and was joined by senior members of the Beaver Lake Cree Nation, whose lands are being destroyed by Canadian tar sand developments. Representatives from Co-operative Financial Services and WWF-UK delivered a letter of protest to the Embassy and met with the Canadian High Commissioner regarding tar sands expansion. Also as part of the campaign launch, our representatives and those of the WWF-UK and the Beaver Lake Cree Nation met a number of MPs to highlight the issue. The MPs included members of the All Party Parliamentary Group on Canada, the All Party Parliamentary Group on Tribal Peoples, the Government's Envoy on Carbon Markets, the Liberal Democrat Shadow Climate Minister, and the Climate Change Adviser to the Shadow Secretary of State for Energy and Climate Change. Following the meetings, some MPs offered to table parliamentary questions, arrange adjournment debates and organise committee inquiries on the issue. We will be pursuing these political channels and calling for legislation on carbon liability disclosure for oil and gas companies during 2009.

In 2008 The Co-operative Financial Services continued engagement with companies and awareness raising about sustainable approaches to palm oil and biofuels. We contributed to a Palm Oil Finance handbook being produced by WWF to provide guidance to the investment and banking communities on how they can incorporate palm oil sustainability into their investment decisions, distributing it to the banks we invest in and encouraging them to develop ethical policies governing services they provide to the palm oil plantation sector. Along with the UK Social Investment Forum we helped to organise and spoke at an investors' event on sustainable palm oil. On biofuels, we wrote a report summarising the findings of our engagement with industries impacted by the growth of biofuels, from food manufacturers and retailers to oil companies and issued a press release to coincide with the announcement of the results of the government's consultation on the indirect impacts of biofuels.

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).

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 have given presentations on the business' work on climate change at 66 national conferences and events in 2008 to an estimated combined audience of 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.

During 2007 and 2008, The Co-operative Group made various submissions in response to Defra and European Commission consultations covering the efficiency of energy using products, with a view to influencing the EU Energy Using Product Directive and the revision of the EU Energy Labelling Directive. In these submissions we supported a mandatory approach to product standards, targets and labelling.

In late 2008 and early 2009, The Co-operative Group was an active participant in the Renewable Energy Association (REA) and Friends of the Earth led 'Feed-in Tariffs coalition'. As part of this activity, the Group participated in meetings with the Minister of State for Energy, Mike O'Brien MP, Department for Energy and Climate Change officials and the two shadow Ministers of State for Energy (Charles Hendry MP (Conservative) and Steve Webb MP (Liberal Democrat)). Additionally, we provided £5,000 to support research to be undertaken by the University of Exeter on behalf of Friends of the Earth and REA to identify international best practice in feed-in tariffs. The Energy Act became law on 26 November 2008 and includes enabling powers for a 'feed-in tariff for small scale electricity' (in Sections 41 to 43 of the Act); a 'Renewable Heat Incentive' (section 100), which in turn included an incentive for biomethane fed into the gas mains.

In February 2009, The Co-operative Financial Services co-signed a collaborative investor and environmental NGO letter to the US Securities and Exchange Commission regarding its new requirements for oil and gas reserve reporting. The letter called for it to adopt a disclosure framework for reserves that have higher than average lifecycle greenhouse gas emissions, such as tar sands. It requested disclosure of geographic location and carbon intensity, highlighting the increased exposure to regulatory and litigation risk such unconventional oil reserves have.

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

The Co-operative Financial Services and WWF jointly published the report '*Unconventional Oil: scraping the bottom of the barrel?*' in July. This report discussed the global economic background to unconventional oil (particularly oil sands and shale oil), the environmental and social impacts of its extraction and refining, and what a failure to properly cost, regulate and mitigate these impacts could mean for any stakeholders – especially investors. The Co-operative

Financial Services presented the report and presented investor risk to 60 attendees at a joint investor event we held with UKSIF (UK Sustainable Investment and Finance Association) to promote the report. We endorsed investors' calls for carbon disclosure in submission of oil reserves to US SEC, and The Co-operative Financial Services put names to a covering letter sent to pension funds with the Greenpeace/Platform report "BP and Shell: rising risks in tar sands investments"

Following on from the above, The Co-operative Financial Services launched its new Customers Who Care campaign on 'Toxic Fuels'. In partnership with WWF-UK, the campaign will highlight the environmental and financial risk associated with unconventional fossil fuels such as Canadian tar sands and US shale oil and call for a halt to expansion plans for their exploitation. Representatives from The Co-operative Financial Services and WWF-UK delivered a letter of protest to the Canadian Embassy and met with the Canadian High Commissioner regarding tar sands expansion, highlighting how these fuels have no part to play in a low carbon future. Also as part of the campaign launch, our representatives met a number of MPs to highlight the issue. The MPs included members of the All Party Parliamentary Group on Canada, the Government's Envoy on Carbon Markets, the Liberal Democrat Shadow Climate Minister, and the Climate Change Adviser to the Shadow Secretary of State for Energy and Climate Change. Following the meetings, some MPs offered to table parliamentary questions, arrange adjournment debates and organise committee inquiries on the issue. We will be pursuing these political channels and mobilising customers to lobby their MPs calling for legislation on carbon liability disclosure for oil and gas companies during 2009.

The Institutional Investor Group on Climate Change (IIGCC), The Investor Network on Climate Risk (INCR) and The Investor Group on Climate Change (IGCC), representing assets exceeding \$8 trillion across 3 continents jointly launched the Investor Statement on a Global Agreement on Climate Change in November 2008, which The Co-operative Financial Services endorsed. The statement affirmed the signatories' conviction that the world must hasten to a low carbon trajectory in order to avoid dangerous climate change, as defined by the UNFCCC and that strong, international regulation that also facilitates innovation and investment in low carbon solutions was not only desirable but inevitable.

Representatives have given presentations on the business' work on climate change and the need for action at 66 national conferences and events in 2007 to an estimated combined audience of 5,000 people.

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

The Co-operative Group supported the EU's recent fuel quality standard that will penalise 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.

The Co-operative Bank mobilised its customers to take action on climate change during 2006 and 2007 as part of its Customers Who Care campaigning. The Co-operative Group's membership teams and regions have also encouraged co-operative members throughout the country to take action. Both campaigns have sought to mobilise customers and members to support Friends of the Earth's 'The Big Ask' campaign, resulting in over 22,000 co-operative customers and members lobbying their MPs to introduce a Climate Change Bill with legally binding emission reduction targets. Such a Bill was announced in November 2006, however, whilst the Draft Bill proposes a legally binding target to reduce the UK's greenhouse gas emissions by 60% by 2050, it does not propose the annual 3% reduction target advocated by the Big Ask campaign. To this end, we have continued to campaign with Friends of the Earth as the Bill passes through Parliament.

In October The Co-operative Group, in conjunction with Friends of the Earth, wrote to MPs welcoming the Government's pledge to increase the 2050 greenhouse gas emissions reduction target to 80% in the Climate Change Bill and asking that MPs support amendments to the Bill to take proper account of aviation and shipping emissions. MPs were also asked to sign EDM 2233 and to contact the Department of Energy and Climate Change to indicate support.

In March 2008, The Co-operative Group wrote to three Labour and Co-operative MPs and ten MPs with constituencies in Greater Manchester asking them to sign Early Day Motion (EDM) 890 in support of feed-in tariffs for renewable electricity. In April 2008, the Group wrote to the then Minister of State for Energy, Malcolm Wicks MP, requesting that he supported amendments to be made to the Energy Bill to enable feed-in tariff arrangements for renewables.

In August 2008, we responded to the UK Green Building Council's consultation 'Carbon Reductions in Existing Homes', with the purpose of developing recommendations to inform the Government's 'Low Carbon Homes' strategy. Our submission called for urgent measures to help overcome barriers to progress in this area, such as favourable tax treatment for energy efficiency appliances and equipment, the introduction of feed-in tariffs, the provision of grants for households through a revamped Low Carbon Buildings Programme, and the availability of suitable financial products. We stated Government should focus on practical support, not raising awareness. Also in August 2008, The Co-operative Bank joined the Existing Homes Alliance, a coalition of organisations calling for an ambitious programme of low carbon refurbishment across the UK's housing stock.

In October 2008, The Co-operative Group, via the Aldersgate Group, wrote to the Prime Minister calling for a robust framework in the Climate Change Bill for the introduction of mandatory carbon accounting and reporting that is consistent with international financial reporting standards.

In December 2008, we signed the 'Poznan Communiqué on Climate Change' issued by The Prince of Wales's Corporate Leaders Group on Climate Change to political leaders at the United Nations Climate Change Conference in Poznan, Poland. The communiqué called for key elements of the agreement to include measures to deliver a robust GHG emissions market, a revised Clean Development Mechanism, measures to promote low carbon technologies, a

framework for developing countries, an adaptation strategy and a mechanism to reduce emissions from deforestation and forest degradation in developing countries.

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 2008 (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:

- Responding to the Department for Business, Enterprise and Regulatory Reform's (BERR's) consultation on the UK Renewable Energy Strategy. Our submission welcomed the strategy's ambitious objectives but stated they needed to be matched with bold policy drivers with sufficient scope and resources to accelerate the renewable energy sector over the next decade. We stated that incentives to support innovative schemes are not currently large enough, attractive enough, and consistent or focused enough to achieve the desired results. We made recommendations as to where Government funding can be best placed to help create a renewable energy economy and that decentralising energy, making changes to the planning system and improving technical planning support were all essential to meet 2020 targets.
- Writing to eight North West MEPs asking that they vote in favour of the Fuel Quality Directive and its Low Carbon Fuel Standard (Article 7a) and encourage their parliamentary colleagues to do the same. The Group highlighted that the proposed Low Carbon Fuel Standard would require suppliers to reduce the lifecycle greenhouse gas emissions of transport fuels, with reductions of at least 6% achieved by 2020 compared with the 2010 average. The Fuel Quality Directive was passed by the European Parliament on 19 December.
- Responding to a Department of Energy and Climate Change consultation on 'carbon units, the net UK carbon account and carbon accounting'. The Group's submission called for carbon credits from avoided deforestation to be recognised under the Clean Development Mechanism, for the inclusion of international aviation and shipping emissions in carbon budgets and for the Government to include carbon offset limits within the UK's carbon account.

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, for example the floods that occurred in the January 2008. This plan ensures that we are able to provide our policyholders with a high quality service during their stressful period.

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
- www.climatechangetracker.com (see 1.b.)

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, in 2008 we took the decision to offset 20% of the CO₂ emissions from all new private motor policies.

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.

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 currently operates a 'Repair over Replace' policy to reduce the proportion of new parts used in repairs to vehicles that are the subject of a motor claim. This 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 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 of plastic components.
- To enhance this new initiative we pay the repairer 50% of the cost of the part which would have been replaced. 1 Tonne of plastic waste equates to 20 cubic meters in volume, with over 15 tonnes of plastic components being repaired per year, including around 250 bumpers per week.
- 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 £110,000 was paid to our approved repairer network during 2008 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

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 2008, we offset over 94,000 tonnes of carbon dioxide through the following projects delivered by Climate Care:

- Rain forest re-forestation in Kibale Forest Park, Uganda employing 400 people in peak season and providing a number of biodiversity benefits.
- 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 India that provide a more sustainable method to irrigate fields and can be used all year round, providing additional income to farming families.

In previous years, our offsetting has been delivered by projects including wind turbines in India, energy efficient stoves in Madagascar and household energy efficiency in Pakistan.

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, we believe in ethical values. 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 its 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, such as Scottish & Southern Energy, which has taken an entrepreneurial approach to renewables, 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. This process for example, led to us using our shareholding in a food service company to press them to better insulate themselves against increasing risk as a result of climate-related disturbance in the food supply chain.
- 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.

The Co-operative Insurance is a signatory to the UN Principles of Responsible Investment and supports climate change related initiatives where merited, for example the call on the SEC to improve oil & gas companies' disclosure on climate change. We received a very good score in its first survey by UN-PRI in terms of upholding our commitments, the results of which are available on our website.

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 company's approaches to managing all relevant social and environmental risks, including climate change, that the company faces. We vote against the Annual Report and Accounts resolution at a company's AGM if we feel their level of disclosure on social and environmental issues is insufficient. We have a policy of always supporting climate change-related shareholder resolutions (unless there are compelling reasons not to) and in 2009 we will be formalising a comprehensive climate change voting policy in respect of management resolutions where voting support will be withheld from companies whose reporting on climate change is inadequate relative to their impact.

As referred to earlier, on the back of a report we co-authored on unconventional oil, and we engaged on numerous occasions with Shell, BP and Chevron on the issue. Currently, we are co-ordinating a collaborative investor letter to oil companies covering: carbon intensity, CCS, local emissions management, stakeholder consultation and indigenous rights, land use planning and improved disclosure for investors. This letter is currently supported by in excess of \$1 trillion of assets under management.

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.

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;
- 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;
- The Co-operative Brand press campaign in 2008 focused on our social responsibility, climate change, offsetting/ecoinsurance, responsible investing/SLT, etc..

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.

The Co-operative Financial Services also hosted a trustee training seminar in conjunction with the IIGCC where a number of investment managers (including us) explained why climate change is important to their pension funds and how trustees and investment managers can integrate consideration of climate change into their investments.

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 three areas:

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.

1. *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.
2. *Environmental management.* We actively encourage better environmental management, within our motor repair supply chain. Practical examples include a contribution of £110,000 being paid to our approved repairer network during 2008 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.

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/en/corporate/sustainability

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 our greenhouse gas emissions connected with premises, transport and refrigerants have reduced by 73% compared with a 2002 baseline¹.
- 99% of the electricity supplied to us (some 34.7GWh in 2008) was obtained from good quality renewable sources, which supports annual CO₂ savings of 14,915 tonnes. As a result of the increased use of renewable electricity, our net CO₂ emissions from energy consumption in our premises have decreased by 67% compared with a 2002 baseline.
- In 2008, we implemented a policy to go beyond carbon neutral by offsetting all of our remaining operational and business travel emissions, together with an extra 10% to cover climate change adaptation issues.
- In 2003, The Co-operative Insurance became the first institutional property investor to transfer all contracts held for its £2bn investment property portfolio to green electricity. In 2005, we outsourced our £2bn investment property portfolio; however, the appointed investment managers have been instructed to continue with the purchase of renewable electricity – some 9.4GWh in 2008.
- Going forward, we have committed to our Group's target to reduce its energy consumption by 25% by 2012 (based on 2005 levels) through reducing our own energy consumption by 5% in 2009. We have also committed to our Group's target to generate 15% of its energy requirements from its own renewables by 2012.
- In 2006, The Co-operative Financial Services commissioned the UK's largest PV system (350kWp capacity).

The success of our internal climate change and energy policies have been externally recognised. The Group was awarded Business in the Community's International Climate Change Award in July 2008, and followed this by winning the Pioneer Award at the 2009 Renewable Energy Awards.

¹ In 2008, CFS' net greenhouse gas emissions connected with premises, transport and refrigerants were 8,983 tonnes of CO_{2e} (assumes a zero emissions factor applied to electricity from renewables). However, if Defra emissions factors for 2008 are applied, which no longer count electricity from renewables as zero carbon, then CFS' net greenhouse gas emissions connected with premises, transport and refrigerants were 23,897 tonnes of CO_{2e}.

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 (csrnetwork) 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 CO₂ 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 Ethics & Sustainability 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 intranet and in Open (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. This is reinforced by social responsibility being both one of the five internal business values The Co-operative Insurance operate under and a brand value.