

Corporate Responsibility Report

As Friends Provident undergoes this period of considerable change, our long-held approach to corporate responsibility (CR) remains important to us and will continue to help guide the organisation during these challenging times. The distinct values and standards by which we expect to be judged are set out in our Statement of Business Principles, and the way in which we live up to these high principles is reflected by our inclusion in the Dow Jones World Sustainability indices and in the Top 100 Companies that Count listing.

Our CR programme has made good progress during 2007, with all parts of the business implementing their own programmes under an overarching CR strategy. This strategy focuses on six material issues, determined by and continually validated through a regular process of engagement with stakeholders. The material issues are trust and confidence, responsible investment, financial capability, community, climate change and our people. For full details of our CR programme, performance and plans, please refer to our 2007 Corporate Responsibility Report at www.friendsprovident.com/responsibility. You can also request a copy of our CR Review, which explores the material issues facing our business in more depth, by emailing groupcommunications@friendsprovident.co.uk

Sir Adrian Montague
Executive Chairman

GOVERNANCE

Friends Provident has a well-developed and integrated CR management system, which includes the following:

- Main Board responsibility
- Company-wide strategic execution
- A CR team
- Defined roles and responsibilities across the company
- Performance indicators for main impact areas
- An objective and target-setting mechanism built into the company's strategic and business planning process
- An internal communication programme
- An internal verification process

RISK

CR risks and opportunities are regularly identified through Friends Provident's risk management process. The ABI Disclosure Guidelines on Socially Responsible Investment are reviewed and reconciled by the CR department. Key CR-related risks have been assessed and include: recruitment and retention of key employees, responsible investing, community relations, financial literacy levels, climate change, mis-selling issues and bribery and corruption. Further information on the company's investment controls and risk management appears throughout this publication.

MEMBERSHIPS

During 2007 Friends Provident has maintained its inclusion in both the FTSE4Good and the Dow Jones Sustainability World Indices and was again rated in The Sunday Times 'Companies that Count' based on an annual assessment by the charity Business in the Community. In addition, F&C is listed separately in FTSE4Good and is a member of the Property Environment Group Index, the Corporate Leaders' Group on Climate Change and the Steering Committee of the UN Global Compact.

We are working with a number of CR expert bodies, such as Forum for the Future, The Carbon Trust and Ipsos MORI, to develop our CR strategy and initiatives. We are active members of the CR community and are members of the Corporate Responsibility Group, the London Benchmarking Group, UKSIF and Business in the Community.

Note: All commentary relates to the UK-facing Life and Pensions business unless stated otherwise.

Corporate Responsibility Report (continued)



**customer
impact**

Stewardship
ETHICAL INVESTMENT SINCE 1984

recoTM

FRIENDS PROVIDENT
Foundation

TRUST AND CONFIDENCE

2007 HIGHLIGHTS

- F&C has made good progress embedding Treating Customers Fairly into the business and has implemented a continuous process to measure performance.
- A series of key performance indicators has been developed in response to feedback received in our Customer Impact survey.
- A dedicated customer committee has been set up, chaired by our Managing Director of Operations, to provide a forum for senior managers to focus on customer needs.

CUSTOMER IMPACT

Bringing the customer to the forefront of Friends Provident's operations is essential to our future in a changing financial services industry. Specific customer focused initiatives undertaken this year include a review of customer literature to ensure the use of plain English, a review of the principles surrounding our treatment of complaints to ensure consistency of approach and a further analysis into the root causes of those complaints. Although these measures will take time to feed through into improved results we continue to participate in the Customer Impact Scheme (CIS) and value the feedback obtained from it. Results from the second CIS survey are disappointing and in response the Customer Committee is identifying the steps needed to address the issues raised. Our 'Caring for Customers' report available at www.friendsprovident.com/reports provides more details of our CIS results and other initiatives.

AWARD WINNING SERVICE

The 5 star service rating from Financial Adviser Service Awards was retained for a fourth consecutive year. Because this is voted for by IFAs, it is highly regarded by the industry and is a key measure of our service.

RESPONSIBLE INVESTMENT

2007 HIGHLIGHTS

- The Stewardship range of ethical funds for retail investors remains the market leader, reaching a landmark £3 billion funds under management.
- F&C engaged 762 companies on issues ranging from health and safety to bribery and corruption and climate change.
- F&C was rated global top quartile in all six categories of the UN's Principles for Responsible Investment.

PROVIDING SOLUTIONS FOR RESPONSIBLE INVESTORS

As part of our commitment to enhance opportunities for customers to invest in line with their own principles, we offered two innovative products for customers during 2007:

Stewardship Corporate Bond fund: a new ethically screened fund which is part of the pioneering Stewardship ethical range. The Stewardship range is amongst the most strictly screened ethical funds in the market and is overseen by an independent Committee of Reference.

F&C Global Climate Opportunities fund: this fund focuses on climate change mitigation and adaptation opportunities. The fund has nine key themes: alternative energy, energy efficiency, sustainable mobility, waste, advanced material, forestry and agriculture, water, acclimatisation and supporting services.

FINANCIAL CAPABILITY

2007 HIGHLIGHTS

- The Friends Provident Foundation, an independent grant-making authority, gave £775,000 in grants for financial inclusion programmes.
- Work has continued with the charity Life Academy, to provide financial literacy training for our customers least likely to receive financial advice.
- A series of pre-retirement counselling seminars has been provided for group pension scheme members.

BIGINVEST

The Friends Provident Foundation focuses on the right use of money in society, with programmes initially centred on addressing issues associated with financial exclusion. BIGinvest is the UK's only company that invests in and finances social enterprises nationally and was one of a number of initiatives that received a grant from the Foundation in 2007. Full details can be found at: www.friendsprovidentfoundation.org

TOWER HAMLETS FINANCIAL LITERACY PROGRAMME

45 pupils from Marner Primary school in Tower Hamlets visited our offices for a workshop focusing on financial literacy, covering subjects such as income and savings, interest, debit and credit cards, cheques and budgets. This is the second stage of our Financial Literacy programme. In 2008 our volunteers will be visiting the school to develop this learning.



CLIMATE CHANGE

2007 HIGHLIGHTS

- F&C's Chief Executive played a leading role in the Corporate Leaders' Group on Climate Change.
- Launched a 'switch it off' awareness raising campaign for employees as part of our carbon management programme.
- Lombard implemented a recycling scheme as part of its environmental management programme.
- F&C teamed-up with Climate Care to introduce a carbon off-setting programme for essential air travel.
- Carbon dioxide emissions for the year totalled 12,314 tonnes (2006: 12,460 tonnes).

CLIMATEWISE

The business helped develop, and became a founding partner of ClimateWise, the industry's response to arguably the biggest issue facing the world today. The initiative was coordinated by the ABI and followed a series of discussions with HRH The Prince of Wales. ClimateWise provides a framework for insurance companies worldwide to set out how they can address climate change through their business activities.

There are six commitments made by signatories of the ClimateWise principles:

- 1 Lead in analysis of the risks posed by climate change
- 2 Inform public policy making
- 3 Raise awareness amongst customers
- 4 Incorporate the consideration of climate change into investment strategies
- 5 Reduce the environmental impact of own operations
- 6 Report progress regularly to ensure accountability.

COMMUNITY

2007 HIGHLIGHTS

- Charitable giving totalled £1.3m in 2007.
- Held an art competition amongst local schools to promote climate change, as part of our 175th anniversary celebrations.
- 13% of employees participated in our payroll giving scheme.
- F&C supported Cancer Research UK as their first 'Charity of the Year'.
- FPI held two community-based challenges that supported their adopted charity, the Isle of Man Children's Centre.

FRIENDS IN THE COMMUNITY PROGRAMME

In its first full year, 25% of our people participated in our employee-led programme, 'Friends in the community' volunteering 4,300 hours and raising £600,000 to support community initiatives. This included team challenges such as helping job-seekers from a former mining community and undertaking various work with the Wiltshire Wildlife Trust.

CHILDREN IN NEED

135 of our people donated their time and skills manning a call centre to take donations for Children in Need. They took 4000 calls and processed over £140,000 in donations and pledges.

PEOPLE

2007 HIGHLIGHTS

- Maintained the Business in the Community 'Opportunity Now' silver award.
- Employee absence for Friends Provident Life & Pensions was 3.27%.
- Friends Provident Pension Scheme was named by UKSIF as one of three leading Corporate Pension funds for their approach to responsible investment.
- The summary CR Report for employees entitled 'Troublesome Rabbits' won the IVCA Clarion award for effective communications.

IMPROVING MANAGEMENT CAPABILITY

During 2007 a career development programme was launched as part of the people strategy for all middle and senior managers. Managers attend a development centre where a tailored individual development plan is formed and an executive coach is assigned to support them through their development. Internal assessment shows that the level of engagement of those people who have started the programme is 14% higher than those who are yet to start. The career development programme is part of a wider strategy to improve performance management practice across the business and is scheduled to run for a further two years.

STAFF ENGAGEMENT INDEX

We are pleased to report a positive five year trend for staff engagement, as measured by our annual staff survey, which despite a one percentage point fall this year, remains high and well above industry averages.



*2006 and 2007 surveys included FPI and Lombard.