2013 was unprecedented in terms of the financial as well as reputational challenges faced by both The Co-operative Group and the Co-operative Bank. Events ranging from the £1.5bn capital shortfall, to the revelations about the former Bank Chairman Paul Flowers, and the need for further provisions for PPI mis-selling have resulted in members, customers, colleagues and other stakeholders feeling deeply disappointed and let down by the Bank, and has led the new Bank Executive to issue an unreserved apology to its customers.

The details of those challenges and the on-going responses to them are covered extensively in the Annual Report and Accounts of both the Group and the Bank and in the independent Kelly Review into events leading to the capital shortfall. Further reports from the Prudential Regulatory Authority, Financial Conduct Authority and Treasury Select Committee will also provide additional insight and reference points for stakeholders.

As such, it is not felt appropriate or in stakeholders’ interests to provide diluted versions of those or other emerging events here, and instead they are referenced and signposted in this review.

The Bank believes that there continues to be a lack of choice in the UK banking market, and that it has an important role in providing a viable alternative to other banks. It has repeatedly acknowledged the importance of ethics and values to its customers and, despite the issues it has faced, the Bank has reiterated that it is committed to refreshing those values and ethics in consultation with customers.

At the end of 2013 the Bank separated from The Co-operative Group and changed its ownership structure. The Group became a 30% shareholder through the Liability Management Exercise (LME), and then a 20% shareholder following the capital raise that was successfully completed in May 2014.

As part of the Bank’s recapitalisation plan, it also started a process of simplification, reflecting its desire to return to its roots as a bank focused on retail and small and medium-sized business (SME) customers with values and ethics at its heart. Some of this simplification process directly impacts the activities that have historically been associated with the Bank’s Ethical Policy. These are highlighted within this review.

For the first time in its 140 year history, the Bank has embedded co-operative values and ethics in its Articles of Association. The Bank has also committed to asking its customers to help refresh its ethical policy in 2014.

In line with the Bank’s reporting over the last 17 years, data and commentary are provided on the following material sustainability issues:

- implementation of the Bank Ethical Policy;
- social and environmental banking, including social and environmental products and services;
- environmental protection, and support for communities and stakeholders; and
- values, ethics and sustainability: Going forward.
The Co-operative Bank in 2013 – Focus on the Core Bank

Despite the turbulence of 2013, the Bank has taken considerable steps to improve its capital position. Key to this was the completion in December 2013 of the refinancing exercise that successfully increased the level of capital held, along with the raising of additional capital in May 2014.

In order to simplify, de-risk and reshape its business, during 2013 the Bank began to separate its business into two distinct areas: Core Business and Non-core Business.

- **Core Business** (including The Co-operative Bank, Britannia and smile) is focused on UK relationship retail banking customers and offers a wide range of banking products from mortgages and loans to current accounts and savings products. The Core Business and Commercial Banking (BaCB) division provides services to small and medium sized businesses (SMEs) which will typically have a turnover of less than £25m; have borrowing requirements of less than £5m; and otherwise meet the Bank’s risk appetite. In line with its strategy, the Bank offers services to credit unions and social enterprises, as well as to larger charities and co-operatives.

- **Non-core Business** consists of those asset classes which are not consistent with the Bank’s business strategy and risk appetite, and will be managed to achieve the most appropriate asset value or are targeted for run down or exit. Non-core assets include large corporates, commercial real estate, project finance, housing associations, local authorities, renewable energy and asset finance.

### Implementation of the Bank’s Ethical Policy

The Bank has been providing co-operative banking services to consumers and businesses for over 140 years. For the past 20 years, the Bank’s Ethical Policy has been central to its approach. Launched in 1992, the Policy – based on a customer mandate involving over 250,000 customers to date – contains specific clauses that restrict the provision of finance to certain business sectors or activities, and seeks to support those organisations making a positive contribution to society (eg credit unions, charities and social enterprises).

The Policy covers all non-personal assets and liabilities held on the Bank’s balance sheet, eg retail loans and deposits and savings, and treasury dealings, and the investment of all retained balances.

### Ethical screening of banking customers

The Bank continues to screen new non-personal customers against its Ethical Policy. As in previous years, in 2013 Ethical Policy compliance was secured in the main by questionnaires which applicants complete as part of the application process, and which are then checked by account opening staff. A central bi-annual screening exercise ensures continued compliance.

Corporate banking customers with a turnover greater than £1m are directly investigated for ethical compliance by trained business development managers and reviewed on an annual basis. Business development managers are issued with Ethical Policy guidelines that set out the criteria to be considered in the provision of facilities, and make explicit where involvement is prohibited. High-risk sector guidelines detail corporate activities considered to present an elevated Ethical Policy risk (eg the manufacture of chemicals), where further review is mandatory. In most cases, an independent analysis is then commissioned from EIRIS, a leading ethical investment research organisation.
### Social and environmental banking

Total of average Core Business and Commercial Banking (BaCB) deposits from social, co-operative and environmental businesses in 2013 reached £2.4bn, 46% of total £5.2bn Core Business and Commercial Banking liabilities.

Positive contribution of Core BaCB liabilities (eg deposits) to society in 2013: £2,395m

- Environmental and social organisations (2%)
- Co-operatives and mutuals (21%)
- Public services (28%)
- Community and charitable sectors (49%)

Total of average Core Business and Commercial Banking assets from social, co-operative and environmental businesses in 2013 reached £350m, 40% of total £878m Core Business and Commercial Banking assets.

Positive contribution of Core BaCB assets (eg loans) to society in 2013: £350m

- Environmental and social organisations (1%)
- Co-operatives and mutuals (44%)
Charity credit cards
In 2013 the Bank offered a range of charity credit cards, each linked to one of 15 partners. A donation is made to the chosen charity when an account is opened and additional donations are made in proportion to the amount spent using the card. In 2013 the Bank raised a total of £1.19m for charity through affinity credit cards (2012: £1.25m). In 2014 the Bank is planning to simplify its range of charity credit cards, in order to ensure a sustainable long-term offering.

The think credit card promotes ethical purchasing by offering better rates of interest for purchases from 16 specified ethical partners, identified as partners that provide sustainable products or services, or are considered to be ‘ethical leaders’ in their sector. When a new card is activated, in partnership with the Royal Society for the Protection of Birds (RSPB), a third of an acre of Indonesian rainforest is purchased and protected in the customer’s name. For every £100 spent on the card, a further 25p is donated to rainforest protection.

Since its launch in December 2008, the partnership has raised £352,000, enough to protect 6,709 acres of rainforest.

Basic bank accounts
Basic bank account features, such as the ability to pay bills by direct debit, can help customers organise their finances and increase their confidence in managing their money. The Bank offers a basic bank account, Cashminder, aimed at those who may not be eligible for a standard current account.

The Bank believes that it has a disproportionate and unsustainable share of the basic bank account market and has called for account providers, consumer groups and policymakers to work together to introduce a sustainable framework for basic banking.

In 2013, as part of The Co-operative Group, the Bank provided evidence to the Parliamentary Commission on Banking Standards (PCBS) on basic accounts, and welcomed the PCBS’ final report which recommended that the industry voluntarily implement minimum standards or the Government should legislate.

Bank accounts for prisoners
Since 2006 the Bank has operated a scheme to provide bank accounts for prisoners, ready for use on release. The scheme operates from 31 UK prisons, and 2,791 accounts were opened in 2013, with a total of 16,171 accounts opened since 2006.

Bonus Account
The Co-operative Bank offers a youth account that supports animal welfare and conservation. Since 2003 the Bonus Account, in partnership with the Born Free Foundation, has provided nearly £250,000 (£7,500 in 2013) towards projects such as anti-poaching units in Kenya and chimpanzee sanctuaries in Cameroon.

Co-operative and community accounts
The Co-operative Bank provides bespoke banking packages, available to all UK co-operatives, charities, community groups and voluntary organisations, which are free for day-to-day banking transactions, subject to certain limits. The Bank additionally offers a bespoke savings account and credit card for co-operative members. In 2013, total Core Business and Commercial Banking lending to co-operatives averaged £127m.

In 2013 The Co-operative Bank launched a bespoke banking package, Social Enterprise Directplus, for the sector, which is also free for day-to-day banking transactions. Social enterprises are businesses characterised by a clearly defined social or environmental mission and a commitment to reinvest the majority of their profits to further this mission and, as such, are aligned to co-operative values.
Regional Growth Fund

The Bank supports the Government’s Regional Growth Fund Programme and has provided loans totalling £3.5m to Community Development Finance Institutions to be disbursed to SMEs and social enterprises which protect and create employment in the most socially deprived boroughs in England and drive investment in local economies. All recipients of funding have had traditional bank funding declined.

Microfinance support

In 2007 The Co-operative Bank introduced a £25m microfinance fund to support the development of small businesses in some of the world’s poorest countries. To date the Bank has lent to four microfinance schemes and supported microfinance institutions in 28 countries.

Access to finance in deprived areas

In November 2013, as part of the Bank’s recapitalisation plan, the Bank announced its intention to rationalise the branch network; 43 branches were subsequently identified for closure in early 2014.

In 2013 the Bank’s finance to small businesses in deprived areas (as a proportion of equivalent bank activity) remained above the industry average.

<table>
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<tr>
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<tr>
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<td>Refrigerant leakages</td>
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</tr>
<tr>
<td>Business travel</td>
<td>1,753</td>
</tr>
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<td>Total</td>
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<td>Carbon intensity (tCO₂e/£m turnover)</td>
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Supporting credit unions

Credit unions are financial co-operatives that offer savings and low-cost loans to their members – many of whom do not have access to traditional services. They are particularly important in areas and communities not served by mainstream financial service providers. The Bank remains the largest provider of banking to the credit union sector.

The Bank’s overall credit balances held by credit unions increased 17% in 2013 to £137m (2012: £117m). The Bank provides a current account for credit union members, in partnership with the Association of British Credit Unions Ltd (ABCUL). In 2013, 23 credit unions offered the account and 36,793 (2012: 36,500) customers benefited.

Cash machines

The Co-operative Bank does not charge for using any of its 2,558 (2012: 2,660) cash machines, 18 (2012: 15) of which are located in low-income communities eligible for a financial inclusion premium.

Financial support to small businesses in deprived areas as a proportion of all equivalent Co-operative Bank activity

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Industry average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business current accounts</td>
<td>6.3%</td>
<td>5.4%</td>
<td>5.4%</td>
<td>5.8%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Overdrafts</td>
<td>5.5%</td>
<td>4.7%</td>
<td>4.9%</td>
<td>5.1%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Loans</td>
<td>5.7%</td>
<td>5.9%</td>
<td>5.7%</td>
<td>7.5%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

Protecting the environment

The Bank seeks to minimise its environmental impacts and in 2013 it maintained its certification to the ISO 14001 standard.

Renewable energy

In 2013 the Bank continued to source 98.8% of its electricity from renewables, and maintained its ‘beyond carbon neutral’ policy for the seventh consecutive year, by offsetting its operational greenhouse gas emissions plus an extra 10% to address legacy issues.

Total greenhouse gas emissions by source, 2013

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</tr>
</tbody>
</table>
**Waste**

The Bank produced 2,637 tonnes of waste in 2013, of which 68% (1,800 tonnes) was recycled or reused. The Bank has reduced waste sent to landfill by 18% since 2009.

**Resources**

In 2013 FSC-certified timber or high recycled content MDF was specified for all wood refurbishments in Bank branches (198 branches).

The Bank monitors its water usage, to help inform better management and reduction in water consumption. In 2013, across the Bank’s estate, there was a 4% reduction in water consumption compared with 2012. Average water consumption reduced from 163m³ per branch location in 2012 to 141m³ in 2013.

**Chemicals – credit cards**

Most credit and debit cards in the world are made of PVC. Since 2007 The Co-operative Bank has issued 3.8 million PVC free cards made from the plastic glycol-modified polyethylene terephthalate (PETG), which does not contain or use chlorine in its production.

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**Employee volunteering**

In 2013, as part of The Co-operative Group, the Bank continued to support communities, with an investment programme that championed employee volunteering. In 2013, 770 Bank employee volunteers supported a range of initiatives including Number Partners, Reading Partners, e-mentoring and acting as school governors.

Employees also continued to volunteer in their local communities through team challenges, with Bank employees taking part in 54 team challenges in 2013, benefiting schools and community organisations across the UK.

**Charity of the Year**

In 2013 the Bank participated in The Co-operative Group Charity of the Year partnership with Carers Trust, going out of its way to support young adult carers. Not only did it put on a summer ball raising over £85,000, but banking staff also provided CV workshops, work experience and mentoring for young adult carers, on top of organising numerous fundraising challenges. The Bank raised £463,405 for Carers Trust – making a significant contribution to the total £6m raised by The Co-operative Group to support 20,000 young carers across the UK.

**Fundraiser of the Year**

Five colleagues from The Co-operative Group were nominated as Fundraiser of the Year at the end of the fundraising partnership. The overall winner, Piers Wrangham (The Co-operative Bank, left), was presented with his award by HRH The Princess Royal, President, Carers Trust, at the fundraising ball in December 2013.
Employees

The average number of people working for the Bank during 2013 was 7,526\textsuperscript{41}, and controllable employee turnover\textsuperscript{42} was 13\%. A breakdown of employee diversity\textsuperscript{43} is shown in the tables below.

Proportion of female, ethnic minority and disabled employees and managers, 2013

<table>
<thead>
<tr>
<th></th>
<th>Female</th>
<th>Ethnic minority</th>
<th>Disabled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>65%</td>
<td>3%</td>
<td>0.01%</td>
</tr>
<tr>
<td>Managers</td>
<td>53%</td>
<td>3%</td>
<td>0.04%</td>
</tr>
</tbody>
</table>

Employee engagement

During a period of unprecedented turmoil for colleagues, the Bank continued to measure employee engagement scores.

Employee engagement is measured using a methodology carried out by Towers Watson, and based on responses to nine survey questions which fall into three categories: employee engagement, energy and enablement\textsuperscript{44}. The 2013 score was 62\%\textsuperscript{45}.

Employee reward and benefits

A breakdown of Bank employees by salary band for 2013 is shown on the left.

Further information on salaries and Executive remuneration can be found in the Bank’s 2013 Annual Report and Accounts\textsuperscript{46}.

In addition, as part of The Co-operative Group in 2013, Bank employees were offered the same range of employee benefits (such as holidays, pension scheme, childcare vouchers, staff travel benefits, personal accident and private medical insurance schemes, sick pay, etc) as Group employees\textsuperscript{47}.

At the end of 2013, 89\% of the Bank’s employees were members of The Co-operative Group pension scheme, Pace.

Health, safety and wellbeing

The Bank continued to monitor accident rates in 2013, which showed a slight decline from 2012.

The Co-operative Banking Group accidents per 100,000 employees (FTE)\textsuperscript{48}

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reportable</td>
<td>0.74</td>
<td>0.45</td>
<td>0.31</td>
</tr>
<tr>
<td>Non-reportable</td>
<td>15.40</td>
<td>11.65</td>
<td>11.43</td>
</tr>
</tbody>
</table>

As part of The Co-operative Group, all Bank employees and their families were offered the services of an employee assistance programme, operated by Validium. In 2013, 3\% (2012: 2\%) of employees from the Banking Group used these services\textsuperscript{49}.

Absence rate

In 2013, the absence rate at the Bank was 5\%.

Whistleblowing

In 2013 an independent, impartial service called Speak Up was available for all employees and suppliers, as part of The Co-operative Group’s approach to whistleblowing. No calls were made in respect of issues relating to the Bank. In addition, a dedicated telephone service was available, which received 39 correspondences.

Customers

Customer satisfaction

In 2013 the Bank continued to be rated highly by customers. The Co-operative Bank carried out a customer satisfaction survey of its business customers\textsuperscript{50} for 2013, using an index that weights results according to the stated importance of attributes.

Customer satisfaction: Business banking customers

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>80.3</td>
<td>84.4</td>
<td>85.0</td>
<td>85.1</td>
</tr>
</tbody>
</table>
Performance recognition

99% of The Co-operative Bank customer complaints were resolved within eight weeks compared to an average of 91.9% across the financial services industry\textsuperscript{22}

2012: 97% against an industry average of 86%

Customer complaints

The total number of complaints for the Bank fell significantly in 2013 to 51,515, due to the decrease in payment protection insurance (PPI) sales complaints\textsuperscript{23} to the Bank (which were a significant proportion of complaints in 2012).

In total, the Bank upheld over 15,000 complaints related to PPI in 2013.

The Bank received 1.59 regulated complaints\textsuperscript{54} per thousand live policies, accounts or investment products in the first half of 2013 (excluding those relating to PPI\textsuperscript{55}) and 1.69 per thousand in the second half\textsuperscript{56}.

Suppliers and sound sourcing

The Co-operative Bank Sustainable Procurement and Supplier Policy (SPSP) is used to screen new and existing suppliers.

In 2013 the SPSP applied to all Co-operative Bank procurement activities with spend of £100,000 or over. It applies to goods and services not for resale of high or medium ethical risk, according to an established risk matrix.

In 2013, five suppliers and one partner were referred for screening against the SPSP.

Values, ethics and sustainability: Going forward

On separation from the Group, the Co-operative values and ethics were formally embedded in the Bank’s Constitution through its Articles of Association\textsuperscript{57}.

A new Values and Ethics (V&E) Committee was established in November 2013 to demonstrate the Bank’s commitment to promoting and conducting its business in accordance with the established values and ethics of The Co-operative Movement\textsuperscript{58}.

The purpose of the V&E Committee is “To recommend to the Board for its approval and adoption the Co-operative Values and Ethical Policies of the Bank”\textsuperscript{59}. The Committee meets at least twice a year and prepares an annual report for approval by the Board. In May 2014 the Bank announced the appointment of Laura Carstensen as the V&E Committee Chairman.

Laura, together with other members of the Committee, will attend the Bank Annual General Meeting to answer any shareholder questions on the Committee’s activities.

The Bank’s Ethical Policy has been renewed and expanded in line with customers’ views on four separate occasions since its launch in 1992.

In early 2014, the V&E Committee of the Board approved a further questionnaire to be issued to customers in 2014.

Since 2006 The Co-operative Group Social Goals function has worked with the Bank on the development and implementation of its ethical, community and environmental programmes. This arrangement continued in 2014 under a Service Level Agreement.

Independent Assurance – Observations

The Co-operative Bank: Sustainability Review 2013 formed part of the scope of the independent assurance we undertook of The Co-operative Group (The Co-operative) Sustainability Report 2013. The assurance process was conducted in accordance with AA1000AS (2008).

The following observations should be read with reference to the full Independent Assurance Statement in The Co-operative Sustainability Report 2013\textsuperscript{60} and should not be taken to imply any view on our part regarding the financial soundness of the Bank overall.

The Co-operative Bank faced unparalleled challenges in 2013 and rebuilding stakeholder trust is one of the great tasks that lie ahead. Nonetheless, the Bank continued to implement its Ethical Policy throughout 2013 and compliance with the Policy continues to be comprehensive.

The co-operative values and principles have been embedded in the Bank’s new Articles of Association. The Bank has also committed to involve a range of stakeholders in the review and renewal of its Ethical Policy.

DNV GL – Business Assurance, July 2014

July 2014