

Green Bond Allocation & Impact Report

March 2023

The **co-operative** bank
for people with **purpose**

1. The Co-operative Bank – the UK’s original ethical bank

1.1 Introduction to The Co-operative Bank

The Co-operative Bank was established in 1872 as the Loans and Deposits department of the Co-operative Wholesale Society. Since our inception, we have put co-operative values at the heart of what we do, and we work hard to provide our customers with a real alternative to the larger retail banks. We offer products to both retail and business banking customers, which together form our core customer segments.

Our purpose is to pioneer banking that makes a positive difference to the lives of our customers and communities, and our vision is to become a customer-centric, efficient and financially sustainable UK retail and SME bank distinguished by its values and ethics.

The Co-operative Bank is the only UK high street bank with a customer-led Ethical Policy. This unique policy has been guiding the way we do business since its first publication in 1992, and it has been updated six times since then. We have periodically undertaken customer polls – most recently in 2022 – to ensure that the Policy continues to reflect the issues that are important to our customers. The results of that poll are published on our website, along with the latest version of the Ethical Policy. Since November 2013, co-operative values and our Ethical Policy have been incorporated into The Co-operative Bank’s Articles of Association.

1.2 Sustainability at The Co-operative Bank

For 150 years we have had an unwavering commitment to co-operative values and ethics, which has made us a natural leader in ESG today. As environmental, social and governance issues have become increasingly important to customers, investors, and other stakeholders, our ambition to maintain a leading position on these issues remains as strong as ever. Since 2021 we have been recognised as the UK’s best Environmental, Social and Governance (ESG) rated high street bank by Sustainalytics – with a current ESG risk rating of 8.3¹.

Our commitment to protecting the environment was formalised 30 years ago when we launched our Ethical Policy. The current version of the Ethical Policy is built on **three pillars**, extending beyond our lending activities to our business operations and campaigning activities:

- **Planet:** We are committed to sustainable business practices – in our own operations, actions and decisions – and in how we enable our personal and business customers to make more sustainable choices. We seek to operate in ways that minimise further environmental harm and to take actions that measurably improve biodiversity and the environment, support organisations that make a positive impact on the environment and take steps to reduce the environmental impact of our own operations.
- **People:** We are committed to acting in a way that supports individuals in being able to live freely, equitably and safely with consideration of both their physical and mental health. This includes how we treat our individual customers and colleagues and our support for human rights and equity around the world.
- **Community:** We are committed to being a good local, corporate and world citizen, working to improve all communities: domestic, international and remote (such as those found online). We commit to building stronger, more resilient communities with economic and social opportunities for their members and will campaign for wider change when needed. We will continue to invest in our communities, good causes and co-operative businesses.

¹ Rated by Sustainalytics in the Banks industry group with a score of 8.3 as of 10 July 2022

Specifically, our Ethical Policy prohibits providing banking services to any business or organization whose core activity fails to:

- **Promote human rights and equality;**
- **Promote economic and social development in Britain;**
- **Protect the environment;**
- **Support international development;** or
- **Protect animal welfare**

More information on our ethical policy can be found [here](#).

Our key achievements & progress in 2022 include:

- We have reviewed our direct and indirect emissions and are committed to reaching net zero on our Scope 1 & 2 direct emissions by 2030, and to be net zero on our indirect Scope 3 emissions by 2050.
- In 2022, we recycled 74 % of operational waste, with the remaining 26 % sent to energy recovery facilities. This is a great improvement on our starting year in 2020, when only 41 % of waste was recycled.
- We have reported a Scope 1 & 2 carbon intensity ratio of 0.8 tCO₂e/FTE in 2022, a 67 % reduction on our 2019 baseline (2.4 tCO₂e/FTE).
- We are proud to be leading the campaign for environmental protection as an Ambassador of Zero Hour, the campaign for the Climate & Ecology Bill.
- In 2022, colleagues exceeded our expectations by spending 4,170 hours volunteering, more than doubling our support in local communities from 2021.
- We're continuing our work to address the gender balance within our organization. We're on target to achieve 45 % women in senior roles by the end of 2023, with 41.5 % of those roles held by women in 2022.
- We were delighted to be awarded The Capital Finance International (CFI) Most Ethical Bank UK 2022 Award.

1.3. How our business model contributes to the UN SDGs

Our SME business accounts support employment generation in economically underperforming regions and they support female entrepreneurship.

Contributes to SDG targets 1.2, 5.5 and 8.3



We provide financing to education, child care, healthcare and elderly care providers, helping them to improve access to their services for all.

Contributes to SDG targets 1.2, 3.8, 4.4 and 10.2



We take part in Help-to-Buy schemes and provide mortgages to individuals who are self-employed, contractors or entrepreneurs, as well as loans to accredited housing associations and co-operative housing providers registered in the UK, which helps to ensure access for all to adequate, safe and affordable housing.

Contributes to SDG targets 1.2, 10.2 and 11.1



We support the construction of buildings in an energy-efficient manner, reducing energy consumption and greenhouse gas emissions. We're also developing products to help our customers to undertake renovations, which will help to mitigate climate change.

Contributes to SDG targets 7.3, 11.6 and 13.2



We provide finance to local charities, social enterprises, non-profit organisations, foundations and philanthropic structures, which helps to provide socioeconomic advancement and improvement for vulnerable populations.

Contributes to SDG targets 3.8, 4.4, 10.2 and 11.1






















2. The Co-operative Bank's Green, Social and Sustainability Financing Framework

In February 2022, The Co-operative Bank published its inaugural Green, Social and Sustainability Financing Framework (the "Framework") in order to issue green, social and sustainability debt instruments.

The Framework is aligned with the 2021 editions of the Green Bond Principles ("GBP")², Social Bond Principles ("SBP")³ and Sustainability Bond Guidelines ("SBG")⁴ published by the International Capital Market Association ("ICMA").

Framework Summary:

The table below only represents a summary of the Use of Proceeds criteria outlined our Framework. Full details of the eligible asset criteria, environmental objectives and benefits, social objectives and target populations can be found in our [Framework](#).

	Category & Summary Description	UN SDG Alignment & Contribution
Green	Green Buildings <ul style="list-style-type: none"> Loans to new or existing residential or commercial properties which score A or B according to their Energy Performance Certificate ("EPC")⁵ 	 Targets: 11.6
Green	Energy Efficiency <ul style="list-style-type: none"> Loans to retail or SME customers to facilitate the installation of renewable energy technologies (e.g. solar panels or pole-mounted wind turbines) for existing residential or commercial buildings Loans to retail or SME customers to facilitate the retrofit/renovation of existing residential or commercial buildings (e.g. via thermo-efficient glazing, air source heat pumps, insulation, solar heating, etc.) 	  Targets: 7.3, 13.2
Social	SME Financing <ul style="list-style-type: none"> Loans to Small and Medium size enterprises ("SMEs") which are either (i) located in socioeconomically disadvantaged areas; and/or (ii) female-led businesses 	   Targets: 1.2, 5.5, 8.3
Social	Affordable Housing <ul style="list-style-type: none"> Loans to not-for-profit, accredited housing associations or co-operative housing providers registered in the UK which are involved in one or more of (i) Social Rent; (ii) Affordable Rent; (iii) Shared Ownership; (iv) Supported Housing 	   Targets: 1.2, 10.2, 11.1
Social	Access to Essential Services (financial services & banking) <ul style="list-style-type: none"> Loans that enable greater access to home ownership in the UK, particularly loans for individuals with a heightened social need and/or individuals underserved by mainstream financing providers including (i) customers with low or moderate incomes; (ii) first time buyers with incomes below the national median; (iii) customers using Government Schemes; (iv) customers which are self-employed / contractors; (v) customers which are young professionals; (vi) customers using our community mortgage product 	  Targets: 1.2, 10.2
Social	Access to Essential Services (education, healthcare & social care) <ul style="list-style-type: none"> Loans to essential service providers in education, child care, healthcare or elderly care, where the services provided are broadly accessible to the public or subsidised by public funding 	    Targets: 1.2, 3.8, 4.4, 10.2
Social	Socio-economic Advancement & Empowerment <ul style="list-style-type: none"> Loans to local charities, social enterprises, non-profit organisations, foundations and philanthropic structures involved in (i) healthcare; (ii) education for the socially vulnerable; (iii) youth development, empowerment and employability; (iv) housing for the socially vulnerable; (v) culture & sport, particularly where beneficiaries reside in disadvantaged neighborhoods 	    Targets: 3.8, 4.4, 10.2, 11.1

² <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>

³ <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf>

⁴ <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Sustainability-Bond-Guidelines-June-2021-140621.pdf>

⁵ In the UK, and EPC is required whenever a property is built, sold or rented. An EPC contains i) information about a property's energy use and typical energy costs and ii) recommendations about how to reduce energy use and save money. They are valid for 10 years from publication. See <https://www.gov.uk/buy-sell-your-home/energyperformance-certificates> for more information.

3. The Co-operative Bank's Green Bond Issuance

Green Bond Issuances (as at 31 December 2022)

As of 31 December 2022, The Co-operative Bank had issued £250m notional of Green Bonds.

Issue Date	Issuer	Currency	Notional (m)	Maturity	Call date	Allocated amount (m)	Allocated (%)	ISIN
06/04/2022	Co-Operative Bank Finance Plc	GBP	250.0	06/04/2027	06/04/2026	250.0	100	XS2464403877

Inaugural Green Bond Issuance: Transaction process and reception

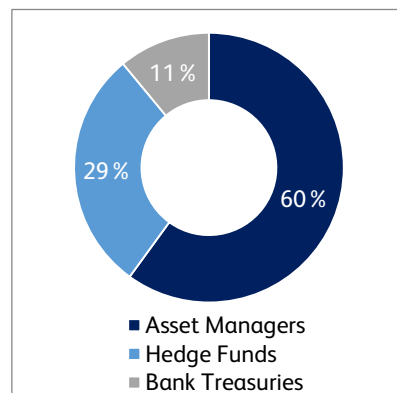
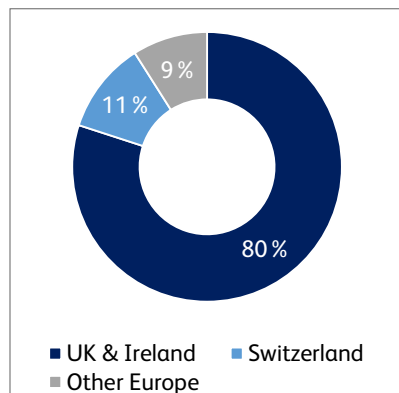
On Wednesday 30 March, The Co-operative Bank Finance p.l.c. successfully priced an inaugural Green £250m 5nc4 HoldCo Senior bond at 6.000%. This transaction marked the inaugural issuance from our newly established Green, Social and Sustainability Financing Framework, published in February 2022.

Transaction Process

A mandate announcement for Co-operative Bank's inaugural green 5NC4, minimum £200m, MREL qualifying, green issuance was announced on the morning of Monday, 28 March 2022. A series of fixed income investor meetings were held on 28 and 29 March, generating strong interest and following which the transaction was launched on 30 March with IPTs at 6.000% - 6.250%. The orderbook grew steadily through the morning, and shortly after 12pm, the transaction was launched at 6.000% for a transaction size of £250m, with an orderbook at final terms in excess of £370m.

Distribution

The transaction received excellent sponsorship from UK investors, who comprised 80% of the orderbook, followed by Switzerland at 11% and other continental European accounts at 9%. Asset Managers accounted for 60% of the overall demand, followed by Hedge Funds at 29%, with Banks comprising the remaining 11%.



Green Bond Allocation: Summary (as at 31 December 2022)

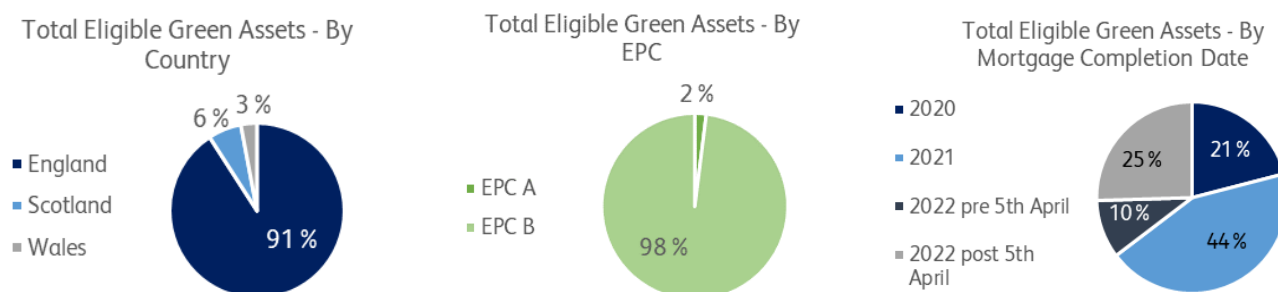
An amount equivalent to the Green Bond's proceeds have been used to finance and/or refinance Eligible Green Assets that comply with the Eligibility Criteria.

In particular, the Eligible Asset Portfolio constitutes UK residential mortgages which had an Energy Performance Certificate ("EPC") rating of A or B and which was valid at mortgage completion.

UK Context: EPC ratings

According to the Office of National Statistics, A and B EPC rated residential properties belong to the top 15 % low-carbon residential buildings in England & Wales (11.8 % as at 31 December 2022)⁶.

Breakdown of the Eligible Asset Portfolio



Category	Balance at 31 December 2022 (£)	% Eligible Portfolio
England – EPC A	17,727,692	1.4 %
England – EPC B	1,115,480,500	89.5 %
Scotland – EPC A	6,710,836	0.5 %
Scotland – EPC B	69,905,395	5.6 %
Wales – EPC A	401,106	0.0 %
Wales – EPC B	36,896,825	3.0 %
Green Residential Buildings – Total	1,247,122,355	100.0%
Total Eligible Green Assets	1,247,122,355	100.0%
Green Financing Instruments Outstanding	250,000,000	

⁶ Source: Office of National Statistics, Table D1: domestic Energy Performance Certificates for all dwellings by energy efficiency rating, published 26 January 2023. <https://www.gov.uk/government/statistical-data-sets/live-tables-on-energy-performance-of-buildings-certificates>

The average remaining lifetime of the identified green residential buildings eligible assets as at 31st December 2022 is 25.7 years.

The Co-operative Bank has also identified a pool of EPC A and B rated commercial mortgages (under the Green Buildings category) and retrofit/renovation SME loans (under the Energy Efficiency category) that comply with the Use of Proceeds criteria outlined within the Framework (Section 2). These assets have been excluded from the Eligible Green Assets portfolio whilst further data is gathered and impact metrics are considered.

Financing vs Refinancing

The Co-operative Bank confirms that a total of £441m of eligible green assets with a valid EPC at completion were completed in 2022, of which £318m were originated since the 6th April 2022 (the day following the settlement date of our inaugural £250m green bond) up to 31st December 2022. This represents >100 % of the net proceeds from this transaction which thereby fulfils our intention to utilise at least 75 % of the net proceeds of the transaction for the future origination of eligible green assets (as communicated to investors ahead of issuance). Financing assets – mortgages originated since the 6th April 2022 – represent 25 % of our total Eligible Green Assets.

Green Bond Impact: Green Residential Buildings

The residential mortgages included within the Eligible Asset Portfolio are exclusively EPC A or B rated. As a result of the increased energy efficiency of EPC A and B rated properties in the Eligible Asset Portfolio compared to the average home we financed over the same period, we would expect the Eligible Asset Portfolio to have a lower level of physical emissions intensity. The reason for the lower level of carbon emissions could be due to a multitude of factors including; the building's age, improved levels of insulation in the building's fabric; more efficient performance and/or net zero energy sources used for space, water heating and lighting; or, improved levels of air tightness of the building.

The Co-operative Bank's impact calculations are based on the calculation of Avoided CO₂ equivalent emissions. Actual energy performance data for the properties within the Eligible Asset Portfolio is unavailable, therefore the CO₂ emissions data available through the individual EPCs has been used as a proxy for the impact calculations.

To provide an approximate indication of the energy efficiency impact of the EPC A and B rated mortgage portfolio over the period 6th April 2020 to 31st December 2022 (the "Period"), we used floor area and CO₂ emissions data available from the available EPC certificate. This data, alongside the indexed LTV and outstanding mortgage balance, was used to calculate the estimated CO₂ emissions avoided p.a. on the EPC A or B rated properties originated over the Period.

We summarise below the steps taken to calculate the estimated CO₂ emissions avoided on EPC A and B rated properties over the period:

- Using the indexed LTV, the floor area and estimated CO₂ emissions associated with each mortgage that financed each residential home during the Period, we calculated:
 - The absolute and LTV-weighted estimated CO₂ emissions of the EPC A and B portfolio financed over the Period
 - The physical emission intensity (kgCO₂/m²/y) of the EPC A and B portfolio financed over the Period
 - The absolute and LTV-weighted estimated CO₂ emissions of the total portfolio financed over the Period
 - The physical emission intensity (kgCO₂/m²/y) of the total portfolio financed over the Period
- Using the above, we calculated the Energy Efficiency Improvement of EPC A and B properties financed vs our total mortgage origination over the Period.
- To calculate the estimated carbon emissions avoided, we have calculated the reduction in the physical emission intensity of the EPC A and B portfolio vs the total mortgage portfolio originated over the Period, and multiplied by the total floor area of the EPC A and B portfolio.

A	Balance of EPC A/B properties with a valid EPC financed in the Period (£)		1,247,122, 355
	Number of EPC A/B properties with a valid EPC financed in the Period		6,192
B	Gross Floor Area ⁷ for EPC A/B properties with a valid EPC financed in the Period (m ²)		635,580
	Absolute estimated CO ₂ emissions p.a. (tCO ₂ /y)		9,710
C	LTV-weighted absolute estimated CO ₂ emissions p.a. (tCO ₂ /y)		5,687
D	LTV-weighted CO ₂ emissions intensity (kgCO ₂ /m ² /y)	C / B	8.95
	Balance of Total properties with a valid EPC financed in the Period		9,087,980,547
	Total number of properties with a valid EPC financed in the Period		51,101
E	Gross Floor Area ⁷ for Total properties with a valid EPC financed (m ²) in the Period		4,801,062
	Absolute estimated CO ₂ emissions p.a. (tCO ₂ /y)		201,463
F	LTV-weighted absolute estimated CO ₂ emissions p.a. (tCO ₂ /y)		117,565
G	LTV-weighted CO ₂ emissions intensity (kgCO ₂ /m ² /y)	F / E	24.49
H	Energy Efficiency Improvement EPC A/B vs average	(D / G) - 1	-63 %
I	Estimated CO ₂ emissions avoided p.a. (kgCO ₂ /y) on EPC A/B properties	(G - D) * B	9,876,614
J	Estimated CO ₂ emissions intensity avoided p.a. (kgCO ₂ /m ² /y) on EPC A/B properties	I / B	15.54
K	Estimated CO ₂ emissions avoided p.a. (kgCO ₂ /y) on EPC A/B properties / £m invested	(I / A) * 1,000,000	7,920

4. Independent Verification

The Co-operative Bank appointed ICS to provide independent verification of the allocation and impact metrics contained within this report. ICS' report has been published on our website and should be read in conjunction with this document.

⁷ Gross Floor Area is defined as the total of all enclosed spaces measured to the internal face of the external walls, as measured in accordance with the guidance issued from time to time by the Royal Institute of Chartered Surveyors or by a body replacing that institution. Source: [Energy Performance of Buildings Data in England and Wales – Guidance](#)

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