

The **co-operative bank**



VALUES AND ETHICS

REPORT 2014

About The Co-operative Bank

Our vision is to become an efficient and financially sustainable UK Retail and SME bank that is distinguished by our values and ethics.

The Bank provides branch, telephone, internet and mobile banking, current accounts, mortgages, savings accounts, credit cards and loans. We pride ourselves on our customer service and customer satisfaction levels, and aim to put our customers at the heart of everything we do.

The Bank has 4.4 million customers. The majority (4.3 million) are individual retail customers and the remainder are small and medium sized businesses, social enterprises, charities, credit unions or co-operatives. Customers are serviced by a nationwide network of 178 branches and a number of call centres and operational centres. In addition, there are 163 Co-operative Bank ATMs, as well as the internet and digital channels. (Figures correct as at 30 June 2015.)

ABOUT THIS REPORT

Our 2014 Values and Ethics Report sets out how we are embedding our values and ethics throughout our business and addressing key sustainability issues.

The Report is structured around the five pillars of our expanded Ethical Policy. In each section we set out our overarching commitments, any major developments and details of our performance in 2014. Where appropriate we provide figures from previous years to help put this in context.

This is our first report since ceasing to be wholly owned by The Co-operative Group and it builds on the Bank's heritage of sustainability reporting. We will continue to publish an annual report as part of our commitment to transparency.

The Report should be read in the context of the Bank's wider economic performance, as set out in our Annual Report and Accounts 2014.

This Report has been independently assured by DNV GL – see [page 37](#).

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Our unique approach to values and ethics

Values and ethics sit at the heart of The Co-operative Bank – and set us apart from other banks.

We have been providing banking services to meet the needs of our customers – businesses, co-operatives and other organisations including charities – as well as millions of individuals for more than 140 years. The Co-operative Bank was originally founded in 1872 to provide banking services for the co-operative movement, so co-operative values have been important from the beginning.

In 1992, The Co-operative Bank became the first bank in the UK to have a customer-led Ethical Policy. The Policy was based on the principle that we would not lend our customers' money to organisations that go against their values. Since then we have been screening new accounts from businesses and other organisations to ensure they meet our standards.

The Ethical Policy has been revised and extended five times, in 1995, 1998, 2001, 2009 and again in 2015, based on the combined input of more than 320,000 customers.

Consulting customers on our values and ethics

In June 2014, we launched our Values and Ethics Poll – and more than 74,000 customers, colleagues and wider stakeholders took the time to share their views with us.

The vast majority (84%) said that our Ethical Policy was a key reason why they banked with us. And 80% of customers strongly believe that not doing business with companies and organisations that breach the Policy best demonstrates the Bank's ethical approach. Customers also made it clear that the way the Bank is run should more visibly reflect the Ethical Policy in areas beyond the provision of banking services. The full findings of our Values and Ethics Poll can be found on our website¹.

Strengthening and extending our Ethical Policy

We significantly extended the Ethical Policy in January 2015. Our customers identified new ethical concerns around who the Bank should provide banking services to. As a result, our Ethical Policy now excludes providing finance to companies or organisations that are involved in irresponsible gambling and payday loans, as well as extending our commitment not to finance companies or organisations that do not responsibly pay tax in the UK as well as elsewhere.

The Policy also now covers four new areas: the products and services we offer, how we run the business, including our relationships with suppliers and external stakeholders, our workplace culture and our commitment to returning to our campaigning heritage. We have done this because it is what our customers told us they want us to do.

Our 2014 Values and Ethics Report delivers on our commitment to report on how we have performed. We present the Report under the headings of the new, expanded Ethical Policy, so that our performance against its commitments is clear and transparent, and to provide a benchmark for our progress in the future.

¹ www.co-operativebank.co.uk/assets/pdf/bank/aboutus/ethicalpolicy/poll-results.pdf

The five pillars of our expanded Ethical Policy

PILLAR 1

ETHICAL BANKING

WE DO NOT PROVIDE BANKING SERVICES TO BUSINESSES AND ORGANISATIONS THAT CONFLICT WITH OUR ETHICAL POLICY.

PILLAR 2

ETHICAL PRODUCTS AND SERVICES

WE SEEK TO OFFER PRODUCTS AND SERVICES THAT REFLECT OUR VALUES AND ETHICS.

PILLAR 3

ETHICAL BUSINESS

WE ENDEAVOUR TO BEHAVE ETHICALLY IN HOW WE RUN OUR BUSINESS, INCLUDING OUR RELATIONSHIPS WITH SUPPLIERS AND EXTERNAL ORGANISATIONS.

PILLAR 4

ETHICAL WORKPLACE AND CULTURE

OUR WORKPLACE CULTURE REFLECTS CO-OPERATIVE VALUES AND ETHICS.

PILLAR 5

ETHICAL CAMPAIGNS

WE CAMPAIGN FOR SOCIAL AND ECONOMIC CHANGE IN LINE WITH OUR VALUES AND ETHICS.

Chief Executive's introduction



Renewing and refreshing our approach to values and ethics was essential to the future of our Bank

2014 has been a transitional year for The Co-operative Bank. It was our first full year of operation following separation from The Co-operative Group. During the year we have concentrated our efforts on rebuilding the business, with a focus on serving individuals and small and medium sized businesses, as well as charities, social enterprises and co-operatives, in order to be able to create a financially sustainable bank that can continue to service our customers.

While the Bank is stronger than it was a year ago, in 2014 we still reported a loss of £264.2 million before tax. This was considerably better than the previous year, but as we have previously said we expect to be loss-making in 2015 and 2016. We therefore need to continue to cut our costs and simplify the business. This involves some difficult decisions – such as reducing the number of branches – but these are necessary in order to assure the future of the Bank. In making such decisions we always take our values and ethics into account and, where this affects colleagues, we always try to deal with this with dignity, respect and fairness.

Despite all our challenges, we are very mindful that The Co-operative Bank has always been part of the co-operative movement with values and ethics at its heart. In November 2013, we made an important commitment, at the point when we were about to change ownership, we wrote the co-operative values and ethical policies into the Bank's Articles of Association.

Without values and ethics we could become just like any other bank and our customers have told us that's not what they want – values and ethics are some of the main reasons why many of our customers choose to bank with us. So, as well as embedding values and ethics into our Articles of Association, we also created a Board Committee with a new independent chair, Laura Carstensen, to ensure values and ethics remain at the heart of the Bank.

Renewing and refreshing our approach to values and ethics was essential to the future of our Bank and I was delighted with the huge volume of responses to the Values and Ethics Poll, in June 2014, which resulted in the launch of our strengthened and expanded Ethical Policy in January 2015.

The response to our Poll demonstrates that major global issues still sit at the heart of what our customers care about, but they also want us to address issues closer to home. During a period of sustained austerity, it was no surprise that customers gave greater weight to supporting economic and social development in the UK. Customers want us to support communities and businesses that improve the fabric of society. Our new strengthened and expanded Ethical Policy reflects these concerns.

The launch of the Ethical Policy is just the beginning. Over the coming months and years we will be developing our plans in some of the new areas, including the products and services we offer our customers, and each year we will report back on the progress we are making.

Of course we still have more to do to turn the Bank around, but the relaunch of our Ethical Policy is an important step in rebuilding The Co-operative Bank. As we listen to our customers and rebuild trust, I am confident that our approach to banking is as relevant as it ever was, and that we should remain the bank of choice for anyone who shares the values and ethics which lie at the heart of our business.

Niall Booker

Chief Executive, The Co-operative Bank

Values and Ethics Committee Chair's foreword



Our job is to ensure that the values and ethics, to which the Bank has committed, are the golden thread that runs through everything it does

I am delighted to present the Values and Ethics Report of The Co-operative Bank. The Bank was a pioneer and multi-award winner of sustainability reporting in the UK. Our 2014 Values and Ethics Report builds on that heritage and marks the beginning of a new era in the Bank's reporting.

There are some substantial achievements that we can be proud of. Despite the challenges of the past year, the Bank has continued to screen the businesses and organisations to which we provide lending and other banking services, thus ensuring we meet the ethical standards customers expect and that we have committed to.

With a long tradition of community and charity support and of managing our impact on the environment, there is much to celebrate. In 2014, the Bank raised more than £1 million for charities from its affinity cards. Since 2006 the Bank has offset more than 100,000 tonnes of carbon and, once again, in 2014 99% of the electricity we used was from renewables. We continue to provide dedicated banking services for many charitable and community organisations, social enterprises and the majority of credit unions. We are also proud to be associate members of Co-operatives UK.

There is much to explore in this Report. It is themed around the five pillars of the expanded Ethical Policy. Next year we will of course have more to say around the new commitments.

My role as the independent Chair of the Bank's Values and Ethics Board Committee is to make sure that co-operative values and our Ethical Policy are at the heart of what The Co-operative Bank does – so that customers and colleagues can be proud to be part of a uniquely ethical bank.

2014 was the first full year of the Committee's operation. It provides the Board with a forum for directors and management to consider the ethical issues and opportunities that emerge from both within the Bank and the wider banking sector. The Committee also oversees the implementation of our unique customer-led Ethical Policy.

The Committee's work in 2014 focused on the preparation for the Values and Ethics Poll, which we ran in June 2014, as well as several initiatives supporting the delivery of the expanded Ethical Policy. These included the cultural transformation programme and potential campaigns and partners. We have also been involved with the business relaunch and brand marketing campaign, which commenced in October 2014, as well as other matters including product development. A copy of the Committee's Terms of Reference may be found in the Supplementary information on [page 43](#).

In 2015, the Values and Ethics Committee will continue to oversee the implementation of the Ethical Policy. Our customers and wider stakeholders will rightly expect us to do so and this Report marks our first opportunity to provide an update on how we are doing. Our job is to ensure that the values and ethics to which the Bank has committed are the golden thread that runs through everything it does, exemplifying what it means to be an ethical bank.

Laura Carstensen

Chair of The Co-operative Bank's Values and Ethics Committee

Supporting co-operatives

The Co-operative Bank remains rooted in the strong and distinctive co-operative values that are enshrined in the Bank's Articles of Association.

OUR SUPPORT FOR CO-OPERATIVES INCLUDES:

Being an associate member of Co-operatives UK, the national trade body that campaigns for co-operation and that works to promote, develop and unite co-operative enterprise.

Providing bespoke banking packages to co-operative organisations²:

- Total Business and Commercial Banking lending to co-operatives averaged £120 million in 2014 (2013: £127 million).
- We provide co-operatives in the UK with free banking for day-to-day transactions, subject to certain limits³.
- We also offer a bespoke credit card for co-operative members.

Providing banking facilities for around 60% of the credit union movement²:

- In 2014 the Bank's overall credit balances held by credit unions totalled £125 million (2013: £137 million).

² For details, see page 18 in Ethical products and services.

³ For details, see the Bank's web site: www.co-operativebank.co.uk/business/community/co-operatives-directplus.

Some recent key milestones

2013

4 November

Commitment to embed co-operative values and ethical policies into the Bank's Articles of Association and create the Values and Ethics Committee.

20 December

The Co-operative Bank legally separates from The Co-operative Group as a result of the successful completion of the Liquidity Management Exercise (LME).

2014

11 April

Annual results for 2013 – the Bank reports an overall statutory pre-tax loss of £1.3 billion, reduced to £586 million after the profit generated from the LME.

30 April

Sir Christopher Kelly publishes his independent review into events that led to the announcement of the Bank's capital action plan to address its £1.5 billion capital shortfall.

27 May

Laura Carstensen appointed as the independent Chair of the Bank's Values and Ethics Committee.

11 June

Launch of the Bank's Values and Ethics Poll. More than 74,000 customers, colleagues and wider stakeholders responded with their views. Overwhelmingly, they were in favour of retaining the Ethical Policy and expanding it.

July – December

Poll findings developed with independent review partner, the Institute of Public Policy Research (IPPR), which facilitated consultation with key stakeholder groups.

1 October

Launch of the Bank's 'fight back' marketing campaign, an important milestone on our journey to rebuild the Bank, with a major advertising campaign centred around values and ethics.

2015

20 January

Launch of the strengthened and expanded Ethical Policy. In addition to banking services, for the first time the Ethical Policy covers how the Bank operates as a business.



Ethical banking

The Co-operative Bank is still the only high street bank with a customer-led ethical policy. For over 20 years the Ethical Policy has aimed to ensure that customers' money is not used to provide banking services to organisations whose activities conflict with their values and ethics.

Our Ethical Policy contains specific commitments that restrict the provision of banking services to certain business sectors or activities across key themes, in line with customers' concerns about who we do and do not bank using their money.

In 2015, based on customers' views, we reaffirmed our commitment to all the existing Ethical Policy statements.

We also expanded the Policy to restrict the provision of banking services to businesses involved in irresponsible gambling, payday lending and those that do not responsibly pay tax in the UK as well as elsewhere. We will be reporting on these new commitments in next year's Report.

Since the Policy was launched in 1992 we have turned down more than £1.4 billion of lending to businesses.



Ethical screening

Screening customers to ensure they comply with the policy is a well-established part of the Bank's processes.

We screen all new non-personal customers against the criteria in our Ethical Policy¹. We assessed compliance with the Policy in 2014, as in previous years, primarily through questionnaires which all applicants complete. These are reviewed as part of the application process².

In addition, commercial banking customers with a turnover of over £1 million are directly investigated for ethical compliance by the Bank's relationship managers. Compliance is reviewed on an annual basis.

Relationship managers use Ethical Policy guidelines that set out the criteria to be considered for the provision of banking facilities, and make explicit where involvement in certain activities is prohibited. We use our High-risk Sector Guidelines to identify corporate activities which are considered to present an elevated Ethical Policy risk, for example the manufacture of chemicals. Further review is necessary for all those activities identified as high risk. In most instances this will lead us to commission an independent analysis from EIRIS, a leading ethical investment research organisation.

WE WILL CONTINUE TO SCREEN NON-PERSONAL CUSTOMERS AGAINST OUR ETHICAL POLICY.

¹ The Ethical Policy screening process covers all non-personal assets and liabilities held on the Bank's balance sheet, eg business loans, deposits and savings; treasury dealings; and the investment of all retained balances.

² The expanded Ethical Policy and associated screening criteria came into effect in January 2015. During 2014, all screening was carried out against the former Ethical Policy.



In 2014, 290 potential customers were reviewed (2013: 232). Of these, four were found to be in conflict with the Bank's Ethical Policy and the business opportunity was declined³. (This compares to 12 in 2013.) There was no lending associated with any of the business declined in 2014⁴.

The fall in the number of organisations declined is mainly a consequence of the Bank's simplification strategy, with the focus on retail customers and SMEs, credit unions, social enterprises, charities and co-operatives, and to run down or exit non-core business, including business with larger corporates.

A breakdown of referrals by Ethical Policy issue can be found in the Supplementary information on [page 39](#).

Ethical screening referrals and outcomes



³ Due to customer confidentiality, the Bank is unable to name businesses found to be in conflict with the Ethical Policy. However, all referrals are subject to independent third-party scrutiny.

⁴ In previous years, the Bank has reported the estimated income foregone following the decline of potential financial opportunities. As at the end of 2014, the total gross income foregone by the Bank as a result of ethical screening was an estimated £11 million. This figure comprises the first year of income foregone as a result of the four businesses turned away in 2014 (£4,000) and declines originating in the years 2000–2013 (£10,914,391), on the basis that financial services provision will have a retention beyond 12 months.

⁵ From 2013, the number of referrals received reflects the Bank's business strategy.

BEST BUY CURRENT ACCOUNT

The Ethical Consumer Research Association awarded 'Best buy' status to The Co-operative Bank's current account in 2014, for its commitment to ethical screening – see www.ethicalconsumer.org/buyersguides/money/bankingcurrentaccounts.

ETHICAL LENDING POLICY

The Co-operative Bank was the only high street bank to implement a full ethical lending policy, as identified by research undertaken by EIRIS's Your Ethical Money website, which provides consumers with ratings of 56 financial institutions' ethical performance – see www.yourethicalmoney.org.

“ We welcome the Co-operative Bank's decision to refresh and strengthen its Ethical Policy, which is important in maintaining the public's confidence in financial services. Banks have an important role to play in supporting and developing the social sector, including charities, and it is good to see this role acknowledged in The Co-operative Bank's policy. Charities have a long history of working with financial institutions to deliver social change, and I hope that this ethical policy will continue to mark a new stage in this relationship. ”

Caron Bradshaw, Chief Executive, Charity Finance Group



“ It is reassuring that The Co-operative Bank has reaffirmed its commitments to human rights in its expanded Ethical Policy. Amnesty welcomes this significant step and challenges other banks to extend the scope of their ethical policies to reflect human rights impacts across all their products, processes and business relationships. ”

Peter Frankental, Economic Relations Programme Director, Amnesty International UK

“ I've changed bank to @CoopBankUK. A bank that doesn't invest money in weapons etc. It's ethical & right (oh and I got £100 from changing!) ”

Customer comment via Twitter





PILLAR 2

ETHICAL PRODUCTS AND SERVICES

WE SEEK TO REFLECT OUR VALUES AND ETHICS IN THE PRODUCTS AND SERVICES WE OFFER, IN THE WAY WE TREAT OUR CUSTOMERS AND IN OUR CONTRIBUTION TO SOCIAL AND ECONOMIC VALUE.

Ethical products and services

Our Ethical Policy is about more than who we provide banking services to. It's about actively supporting businesses and organisations that are in tune with our values and ethics, and those of our customers.

Our strategy is to focus on UK retail banking customers¹ and, through our Business and Commercial Banking division, to provide a simplified range of products and services to UK-based small and medium-sized businesses (SMEs)², credit unions and social enterprises, as well as larger charities and co-operatives.

And it's about reflecting our values and ethics in the way we treat our customers and in doing business in a way that contributes to social and economic value.

Designing products for our customers

In our Ethical Policy we have committed to applying our values and ethics to the products we offer our customers. With this in mind, in 2014 we carried out a review of our retail products across the customer journey and against our values and ethics. We undertook extensive customer research and engagement with retail customers to help ensure that we treat our customers fairly and that our products and services meet their needs.

We have introduced a more rigorous product development process for new products, including involving groups of customers in 'co-creating' the products we plan to launch. This included:

- Research involving 300 personal customers and 600 customers of other banks to help design a new current account proposition
- Workshops to inform the development of a new overdraft proposition
- 'Co-creation workshops' to generate and test a range of mortgage proposition ideas.

During 2015, we will define and put in place an ongoing product review process, including a set of design principles with values and ethics embedded for new products and services, and metrics for continual assessment of products.

WE WILL CONTINUE TO INVOLVE CUSTOMERS IN THE DEVELOPMENT OF NEW PRODUCTS.

The new product design process in action

The Bank introduced a new overdraft charging structure on its current accounts in April 2015.

The new overdraft was developed in consultation with customers, including those of other banks. Consumer group *Which?* was also engaged during its development. The approach demonstrates the Bank's commitment to developing products with values and ethics at their core, following the re-launch of its expanded Ethical Policy in January 2015.

The simpler overdraft includes a reduction of some fees and the abolition of the unpaid item fee, which will help customers who occasionally use an informal overdraft. A market-leading buffer, a lower cap on charges and a waiver on fees will help those who quickly return to their agreed formal position. These changes reflect the feedback from customers.

“ This is a significant development of our current account proposition. It marks the commitments laid out in our recently re-launched Ethical Policy to listen to our customers and involve them in the creation of our products. ”

Matthew Carter, Products and Marketing Director – new Overdraft product, The Co-operative Bank

1 This includes The Co-operative Bank, Britannia and smile products.

2 Those which typically have a turnover of less than £25 million and have borrowing requirements of less than £5 million.

Ethical retail products and services

We offer a range of products and services which provide customers with the opportunity to support causes they believe in, such as international development, human rights, environmental protection and animal welfare.

Charity credit cards

In 2014, the Bank raised over £1 million for charity through affinity credit cards. (The figure of £1.08 million is slightly down from the £1.19 million raised in 2013.)

We currently offer a range of credit cards, each linked to one of five charity partners: Amnesty International, Oxfam, Save the Children, Tearfund and Woodland Trust. This has been reduced from 15 last year as part of the Bank's strategy to provide a simplified product range. Payments are made to the chosen charity in proportion to the amount spent using the card.

Protecting the environment

Our partnership with RSPB has raised £416,000 since its launch in December 2008, enough to protect 7,924 acres of rainforest.

Our think credit card, which is no longer available to new customers, promotes ethical purchasing by offering better rates of interest for purchases from 16 specified ethical partners³. For every £100 spent on the card, 25p is donated to rainforest protection in Indonesia, through a partnership with the Royal Society for the Protection of Birds (RSPB)⁴.

Protecting animal welfare

Since 2003, our Bonus Account, a youth account which is provided in partnership with the Born Free Foundation, has donated nearly £260,000, with a total of £14,000 being raised in 2014. The funds are used to support animal welfare and conservation projects, such as anti-poaching units in Kenya and the establishment of a Wildlife, Rescue, Conservation and Education Centre in Ethiopia.

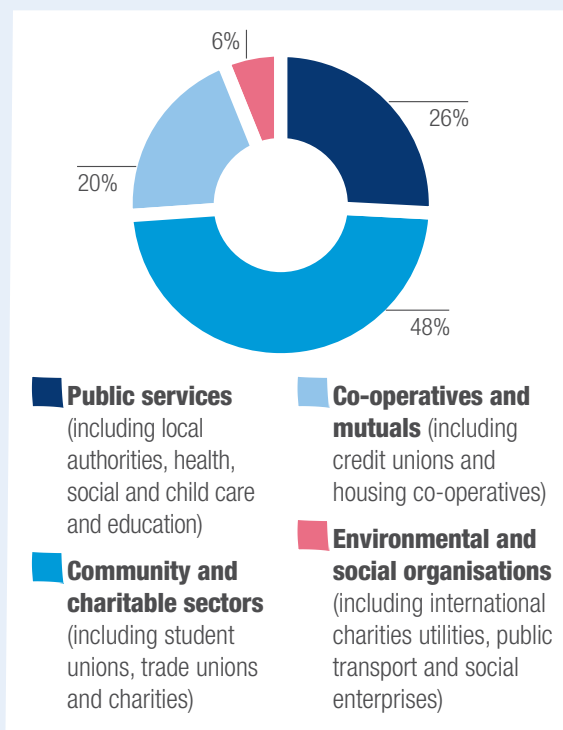
Supporting economic and social development

In our Values and Ethics Poll, 60% of customers said they wanted us to support social and economic development in the UK. We have therefore retained our commitments to support the social economy in our Ethical Policy. Co-operatives, social enterprises, charities, community finance and credit unions make a positive and valuable contribution to the economy and employment in the UK.

Deposits and loans supporting the social economy

Just over half (51%) of The Co-operative Bank's total average Business and Commercial liabilities (eg, deposits) in 2014 came from social enterprises, co-operatives and environmental businesses. The total of average balances of these liabilities was £1.5 billion (of £3 billion total average Business and Commercial Banking's liabilities in 2014).

Positive contribution of Core Business and Commercial Banking liabilities (deposits) to society in 2014: £1,504 million



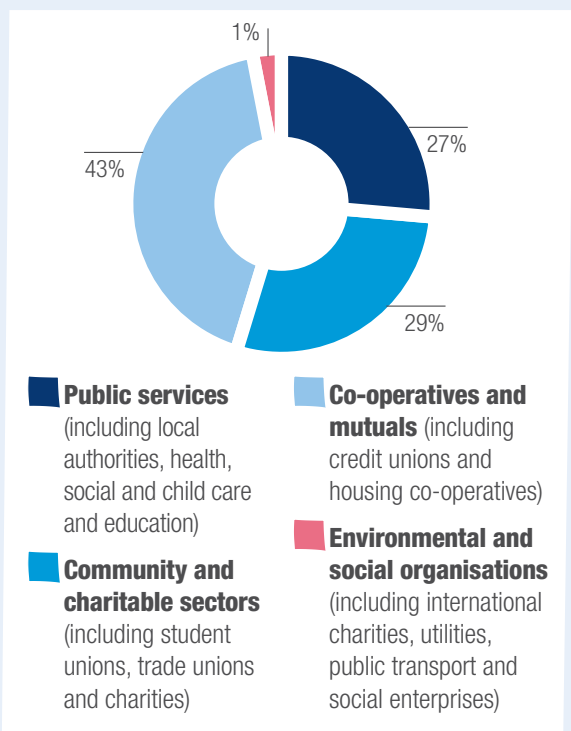
³ The partners – RSBP, Traidcraft, IKEA, Lush, theTrainLine.com, Raleigh, Nigel's Eco Store, Ethical Superstore, Ecofirst, Ecotricity, Arriva, Ethical Consumer Magazine, The Ecologist, Co-op Electricals, The Co-operative Food and The Co-operative Insurance – provide sustainable products or services or are considered to be 'ethical leaders'. Leadership positions are identified via independent third parties, such as Ethical Consumer Research Association (ECRA).

⁴ www.rspb.org.uk/joinandhelp/donations/campaigns/rainforests/indonesia.aspx

The total of average assets (eg, loans) to social and environmental organisations reached £335 million in 2014. This is equivalent to 42% of Business and Commercial Banking's £805 million total loan book (assets).

Co-operatives and mutuals make up the largest proportion of these loans (43%), with community and charities comprising 29% and public services a further 27%.

Positive contribution of Core Business and Commercial Banking assets (eg, loans) to society in 2014: £335 million



Community finance

We provided loans totalling £7.18 million to Community Development Finance Institutions (CDFIs) from October 2012 to February 2015.

These funds are disbursed to SMEs and social enterprises, helping protect and create employment in some of the most socially deprived boroughs in England.

The programme⁵, co-ordinated by the Community Development Finance Association, has supported over 1,000 businesses and created 425, and secured 4,159 jobs across England, mainly outside London and the South East. The funding has leveraged an additional £24 million to invest £31 million in small businesses – which has generated an additional £188 million for the economy.

For further information please see the Supplementary information on [page 40](#).

Supporting co-operatives and credit unions

The Co-operative Bank remains rooted in the strong and distinctive values and ethics of the co-operative movement, which are incorporated in the Bank's Articles of Association.

Working with Co-operatives UK

We are an associate member of Co-operatives UK – the national trade body that campaigns for co-operation and works to promote, develop and unite co-operative enterprise. We also provide bespoke banking packages to co-operative organisations.

We are working with Co-operatives UK to identify ways in which we can demonstrate our support for the co-operative sector that reflects our commitment to co-operative values and ethics.

“ It is very welcome to see The Co-operative Bank begin 2015 with its bold and purposeful expanded Ethical Policy. ”

Ed Mayo, Secretary General, Co-operatives UK

⁵ The programme is a partnership between the Community Development Finance Association (CDFA), Government, The Co-operative Bank and Unity Trust Bank. Each of the two banks provides up to £15 million, which is matched by up to £30 million from the Regional Growth Fund (RGF1). All recipients of funding have had traditional bank funding declined.

Providing banking products for co-operatives

Total Business and Commercial Banking lending to co-operatives averaged £120 million in 2014. This was slightly lower than the £127 million loaned in 2013.

We provide bespoke banking packages for co-operatives in the UK, which are free for day-to-day banking transactions, subject to certain limits⁶.

We also offer a bespoke credit card for Co-operative members.

Providing banking for credit unions

The Co-operative Bank provides banking facilities for around 60% of the credit union sector.

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 not served by mainstream financial service providers.

In 2014 the Bank's overall credit balances held by credit unions totalled £125 million. This is down on the 2013 figure of £137 million.

We also provide back office infrastructure in partnership with the Association of British Credit Unions Limited (ABCUL), which enables individual credit unions to provide a current account for their members. In 2014, 21 credit unions offered the account, slightly down from 23 in 2013. A total of 37,350 credit union customers benefited from having one of these accounts. This is a slight increase on 2013, when the total stood at 36,793.

Supporting charities and social enterprises

In 2014 our Core Business and Commercial Banking lending to social enterprises averaged £58 million.

The Co-operative Bank provides a range of bespoke banking packages for charities, community groups, voluntary organisations and social enterprises. Social enterprises are businesses with a clearly defined social or environmental mission which reinvest the majority of their profits to further this mission and, as such, are aligned to co-operative values.

Community Directplus and Social Enterprise Directplus are free for day-to-day banking transactions⁷.

Customer Donation Fund

In 2014 we donated over £36,000 to community projects and fundraising activities benefiting over 40 organisations from our Customer Donation Fund.

Our Community Directplus accounts provide bespoke banking services for community and voluntary organisations. We donate 20 pence for every £100 increase in collective balances across Community Directplus accounts to the Customer Donation Fund. Account holders can apply for up to £1,000 project funding from our Customer Donation Fund.

Read more about how the Donation Fund has helped account holders with their projects: www.co-operativebank.co.uk/business/community/donation-fund-winners.

“ When we received the award from the Bank's Customer Donation Fund it gave us all a real boost – we were very pleased. The Fund gives Co-operative Bank customers the opportunity to undertake projects that help to support their local organisations. It also tangibly demonstrates one of the unique ways in which the Bank supports its customers and that is fantastic. ”

Leanne Jones, Participation Manager, 20 Stories High

**20
STORIES
HIGH**

⁶ For details, see the Bank's website: www.co-operativebank.co.uk/business/community/co-operatives-directplus

⁷ For details, see the Bank's website: www.co-operativebank.co.uk/business/community/community-directplus, www.co-operativebank.co.uk/business/community/social-enterprise-directplus

Providing good customer service

Treating customers fairly is at the heart of our Ethical Policy. We seek to ensure good outcomes for our customers through actions such as using plain language, helping customers in financial difficulty, and the way we reward customer service staff.

Fair fees and charges

The Bank's marketing and promotional activity is all carried out in line with Financial Conduct Authority (FCA) guidance⁸ to ensure it is clear, fair and not misleading.

In 2015, we will begin reviewing the content of key items such as Terms and Conditions, and fees and charges, with the aim of improving clarity and transparency. This will include researching best practice and working with the Plain Language Commission on clear and transparent language and content⁹.

“ @CoopBankUK No more charges for bounced direct debits or standing orders! Nice one!! #mybank #notsogreedy ”

Customer comment via Twitter

Rewarding good customer outcomes

Pay and reward for our staff are based on quality of service, good customer outcomes and risk control. We removed sales incentives from all colleagues in branches and contact centres in October 2012. (See [page 31](#) for more information on colleague reward.)

Customer experience

In 2014, we launched a new customer experience indicator to measure how well we are putting customers at the heart of everything we do. The indicator measures the volume of customers whose needs we have successfully met in conjunction with how satisfied our customers are with the service we provide¹⁰.

Colleagues in branches and contact centres have an objective to achieve an 85% customer experience score from our Real Time Feedback (RTF) surveys. Between June and December 2014, 145,216 RTF surveys were completed by customers across our branch and contact centre network.

Our customer experience score between June and December 2014 was 86.1%.

Colleagues are also measured on meeting a range of customer needs through customer review meetings.

We were the first bank to achieve accreditation to the Customer Contact Association (CCA) Global Standard[®] V6 in 2014¹¹. The CCA Global Standard is a set of key principles designed to increase the reliability and effectiveness of the customer contact operation.

Customer satisfaction

Overall customer satisfaction remained stable in 2014 (rising slightly from 70% in Quarter 1 to 71% in Quarter 4)¹².

Current account satisfaction was 74% at the start of the year and had fallen slightly to 73% by the year end. We subscribe to monthly product level customer satisfaction data, based on an industry wide syndicated survey¹³.

Customer complaints

The total number of reportable complaints for the Bank fell by 11% to 45,855 in 2014 (2013: 51,515), due to the continued decrease in payment protection insurance (PPI) sales complaints¹⁴. (A reportable complaint is one that has not been resolved by close of business the day after it has been received.) The Bank received on average 3.5 reportable complaints per thousand accounts, live policies, or investment products each half year in 2014¹⁵.

99% of the Bank's customer complaints were resolved within eight weeks, compared to an average of 91% across the financial services industry¹⁶.

8 www.fca.org.uk/firms/being-regulated/financial-promotions; <http://fshandbook.info/FS/html/handbook/COBS/4>

9 www.clearest.co.uk

10 This is based on the views of customers who take certain actions, such as switching a current account, taking out a personal loan or opening a savings account, following a colleague conversation with them.

11 www.cca-global.com/gsx/content/awards/?contentid=112

12 Internal Representative Survey conducted by Optimisa Research. Q1 2014 804 adults interviewed, Q4 2014 1,000 adults interviewed. Figures represent The Co-operative Bank, Britannia and smile.

13 <http://www.gfk.com/uk/industries/financial-services/financial-research-survey/> GfK Financial Research Survey (FRS) 6 months ending January 2015, 29,761 adults interviewed/6 months ending December 2014, 30,085 adults interviewed. Figures represent The Co-operative Bank, Britannia and smile.

14 The figures for the first and second half of the year were 23,317 and 22,538 respectively.

15 The figures for the first and second half of the year were 3.49 and 3.52 respectively. Excluding PPI complaints, this equates to 1.82 and 2.34 complaints per 1,000 live policies, accounts or investment products, respectively (www.co-operativebank.co.uk/aboutus/ourbusiness/2014-jan-july; www.co-operativebank.co.uk/aboutus/ourbusiness/2014-july-dec).

16 Based on FCA data for the first half of 2014 (www.fca.org.uk/firms/systems-reporting/complaints-data/aggregate-complaints-data).

Access to banking

Our branch network is an important part of our overall customer service offering.

Increasingly customers are using our digital and telephone channels to contact us, and the numbers of customers using branches is declining. We are redesigning and modernising our branches as customers look to use branches for more complex conversations.

We are also investing in digital and new ways to enable customers to undertake their day-to-day banking that better meet their needs.

At the end of 2014 we had a total of 222 branches. In line with our strategy we need to restructure the Bank to become a simpler and more efficient business, and as part of this we need to reduce the branch network further. This involves difficult decisions, but is carefully considered taking into account factors such as the alternative branches in the area¹⁷.

During 2014 we closed 72 branches. We have identified a further 57 branches for closure or merger during the first half of 2015. We communicate with customers well in advance of such changes and, where possible, offer alternative roles to colleagues who work in affected branches. The retained branch network remains significantly greater than our branch footprint prior to the Bank's merger with Britannia, which took place in 2009. The Bank has retained branches with locations in key markets across the UK.

We monitor the proportion of branches that we provide in socially deprived areas¹⁸. This figure has remained consistent at 38% since 2012¹⁹.

For further information please see the Supplementary information on [page 40](#).

“ I bank with them and customer service is second to none. Always helpful, easy to talk to, wouldn't go anywhere else... ”

Customer comment via Facebook

Our cash machine network

We do not charge customers for using any of our cash machines.

A substantial part of our ATM network was based in The Co-operative Group's food stores. Following the Group's announcement last year that a new operator will provide cash machines in its food stores, we will have a smaller ATM network in the future.

At the end of 2014 we had a total of 1,911 ATMs, down from 2,558 in 2013. A further 1,712 ATMs are due to be transferred to the new operator in 2015. Our customers can still access the UK network of 46,000 free cash machines.

Eleven (2013: 18) of the Bank's cash machines are located in low-income communities eligible for a financial inclusion premium²⁰.

All the Bank's ATMs have 'talking' functionality and high-resolution screens so they can be used by blind and partially sighted customers. This facility is available to all Link and Visa cardholder users accessing the Bank's ATMs.

Supporting basic bank accounts

We offer a basic bank account called Cashminder for customers who may not be eligible for a standard current account. 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 money²¹.

We believe that we have a disproportionate and unsustainable share of the basic bank account market²². Since 2012, we have called for other account providers, consumer groups and policy makers to work together to introduce a sustainable framework for basic banking.

In 2014, following extensive discussions with HM Treasury, The Co-operative Bank and eight other major banks and building societies committed to a Revised Basic Bank Account Agreement. The agreement reflects many of the elements of our proposed sustainable framework, including publishing details of banks' market shares.

17 Closing branches are generally within 10 miles of another Co-operative Bank branch and there is at least one Post Office within three miles. Co-operative Bank customers can undertake most day-to-day banking transactions at many of the UK's more than 11,000 Post Offices.

18 Areas that correspond with the 20% most deprived areas identified in the Government's Indices of Multiple Deprivation for England (2010), Wales (2011), Scotland (2012) and Northern Ireland (2011). Deprivation is considered to be a multi-dimensional problem, encompassing a range of domains such as financial, health, education, services or crime (Venkatapuram and Marmot, 2009). The four constituent nations of the UK have each developed their own index of multiple deprivation, providing a comprehensive assessment of deprivation at small area level within each country, and therefore this is the most appropriate definition in the context of deprived areas within the UK.

19 Based on 222 branches as of 31 December 2014.

20 This was introduced in 2007 as a market-based incentive to encourage ATM operators to place free ATMs in deprived areas (ATM Working Group (December 2006), Cash machines – meeting consumer needs).

21 British Bankers' Association (March 2006).

22 In July 2013, the Bank had approximately a 4% total (stock) share of the basic bank account market (twice its 2% overall current account market share), and this share has been increasing annually. In 2012, the Bank opened approximately 8% of all new basic bank accounts. For more information about basic bank accounts, see www.gov.uk/government/news/new-basic-fee-free-bank-accounts-to-help-millions-manage-their-money; www.gov.uk/government/uploads/system/uploads/attachment_data/file/386953/141211_basic_accounts_agreement_text.pdf

Bank accounts for prisoners

In 2014, we opened 2,210 accounts for prisoners, with a total of 18,381 accounts opened since 2006.

The Co-operative Bank pioneered the provision of bank accounts for prisoners. Since 2006, we have operated a scheme to provide bank accounts for prisoners, ready for them to use on release. The scheme operates from 31 UK prisons.

In 2013, The Co-operative Bank opened nearly half (47%)²³ of all accounts opened by prisoners in England and Wales – significantly above the Bank's overall share of the personal current account market.

As a result, and in line with a recommendation by Unlock (an independent charity which provides information and services for people with convictions), in early 2015, we decided to withdraw from a number of our partnerships with prisons to a level which is more closely aligned to our share of the personal current account market. We were supported by Unlock to work with the National Offender Management Service (NOMS) and the banking industry to secure replacement banking partners for the prisons where possible.

The Bank remains committed to providing bank accounts for prisoners. We will continue to provide a partnership with a number of prisons, and no prisoners' bank accounts are being closed as a result of this decision.

Helping customers in financial difficulty

We have a range of tools and processes to help retail (personal) customers who experience short-term or long-term financial difficulty. These include individual repayment plans, suspension of interest or charges, and full or partial settlements where this is the most appropriate outcome.

We signpost customers to third party providers of debt advice. We do this on our website, in letters we send to customers and through a booklet which provides guidance to help customers manage their debts²⁴.

StepChange²⁵ is our primary referral point for customers in difficulty. StepChange offers free, independent, impartial and confidential debt advice to consumers. In 2014, almost 1,500 Co-operative Bank retail customers who had a Co-operative Bank debt were directly referred to StepChange. (This is a slight increase on 2013, when we referred 1,249 customers.) StepChange was working with almost 4,300 Co-operative Bank personal customers in total at the end of 2014.

The Co-operative Bank contributes to StepChange through a 'fair share' contribution, calculated as a percentage of the repayments it collects on our behalf.

We have specific policies in place for the treatment of vulnerable customers.

²³ For more information, please see: www.unlock.org.uk/wp-content/uploads/2014-Banking-Impact-Report-final-full.pdf

²⁴ www.co-operativebank.co.uk/customerservices/managingyouraccount/financialdifficulties; www.co-operativebank.co.uk/assets/pdf/common/seeing-red.pdf

²⁵ www.stepchange.org



PILLAR 3

ETHICAL BUSINESS

*WE ENDEAVOUR TO BEHAVE ETHICALLY
IN HOW WE RUN OUR BUSINESS, INCLUDING
OUR RELATIONSHIPS WITH SUPPLIERS
AND EXTERNAL ORGANISATIONS.*

Ethical business

Conducting our business with honesty and transparency is at the heart of our Ethical Policy. Our Policy encompasses commitments around how we operate as a business – including the way we manage our impact on communities and society, our relationships with suppliers and external organisations, and the environment.

Investing in communities

We believe in the ethical values of concern for community, social responsibility and caring for others, in common with organisations across the co-operative movement.

We support UK and international communities through our range of products and services with a charitable focus ([page 16](#)), and through our colleague volunteering and other charitable activities.

**OUR TOTAL INVESTMENT IN
COMMUNITIES IN 2014 WAS
£1.56 MILLION¹.**

“ I welcome the Co-operative Bank’s support for charitable causes, which will go towards supporting vital and life-changing work around the world. That the Co-operative Bank’s customers value its ethical policy is a reminder for all businesses of the importance of supporting the communities you work in and being seen to do so. ”

Sir Stuart Etherington, Chief Executive NCVO

NCVO

“ We were delighted to receive the funding from The Co-operative Bank’s Customer Donation Fund. It shows that the Bank not only supports its customers, but also invests in their communities. ”

Claire Prospert, Co-Founder Member and Secretary, Newcastle Cycling Campaign

A total of £1.4 million was generated through products and services. These include our charity credit cards, Community Directplus account and our current account switching offer².

A further £0.16 million was generated through activities such as colleague volunteering ([page 33](#)), payroll giving and our carbon offset programme ([page 25](#)).

Community investment activity

Activity	Cash	Other ³	Total
Products and services	£1.39m	£0.01m	£1.40m
Volunteering, payroll giving, carbon offsets and other	£0.02m	£0.14m	£0.16m
Total	£1.41m	£0.15m	£1.56m

For further information please see the Supplementary information on [page 41](#).

- 1 The total community investment figure includes investment through products and services and other activities such as staff time spent on community investment (including colleague volunteering), our carbon offset programme and investment that the Bank has facilitated (‘leverage’) which in 2014 was made up of contributions by employees through payroll giving.
- 2 Customers can choose for the Bank to make a donation of £25 to one of seven charities when they switch their current account to us, these are: ActionAid, WaterAid, Oxfam, Woodland Trust, Carers Trust, Hospice UK and Amnesty International. If customers do not choose a specific charity the £25 donation is split equally between the seven charities.
- 3 This is made up of the value of staff time spent on community investment activities and contributions from others that we have facilitated (‘leverage’) – which in 2014 was made up of contributions by employees through payroll giving.

Politics, tax and government

Political donations and memberships

The Co-operative Bank does not donate to any political party, politician or party political campaign group.

We disclose our principal memberships, subscription fees and donations to trade and business associations that engage in public policy activities, together with our involvement in other organisations that seek to influence public policy or business practice. For a table of these fees please see the Supplementary information on [page 41](#).

Corporation tax

The Bank has adopted the Government's voluntary Code of Practice on Taxation for Banks.

We maintain a transparent relationship with HM Revenue & Customs, endeavour to comply fully with our tax obligations, and do not undertake tax planning that aims to achieve a tax result that is, in our opinion, clearly contrary to the intentions of Parliament.

Our 2014 corporation tax details are disclosed in our Annual Report and Accounts ([page 185](#))⁴.

Public policy engagement

We engage with governments, parliamentarians and wider stakeholders on a number of public policy matters, principally those with a focus on banking policy or the development of relevant legislation.

In 2014, for example, we continued to engage with HM Treasury around the issue of basic bank accounts – the outcome of which is described on [page 20](#). We will continue to engage on public policy issues in 2015, and anticipate that these will include further discussions on basic bank accounts, as well as other areas of banking policy and legislation.

We abide voluntarily with the relevant elements of the Association of Professional Political Consultants's (APPC) Code of Conduct, which provides a recognised ethical standard and best practice for our relationships with public institutions. (It is not currently appropriate for the Bank to be a member of APPC, as we do not offer public affairs services to third party clients.)

We publish details of all formal meetings on behalf of The Co-operative Bank between Government ministers and members of the Bank's Board and Executive. For further information please see the Supplementary information on [page 42](#).

Economic value distributed

'Economic value generated and distributed' is the contribution of commercial organisations to national wealth and the benefits they deliver to stakeholders. Economic value can be distributed as salaries to employees, taxes to government, donations to charitable causes and, if relevant, as profit, dividends and reserves to owners⁵. In 2014 we contributed £675.5 million to national wealth.

For further information please see the Supplementary information on [page 42](#).

⁴ www.co-operativebank.co.uk/assets/pdf/investorrelations/annual-report.pdf

⁵ Based on GRI indicator G4-EC1 (www.globalreporting.org/resourcelibrary/GRI-G4-Part2-Implementation-Manual.pdf). Economic value distributed = operating costs + employee wages and benefits + payments to providers of capital + payments to government + community investments.

Our supplier relationships

As a business, we need to ensure that we behave ethically not only in the direct impact of our activities, but also indirectly through our supplier relationships.

We require every supplier directly engaged by The Co-operative Bank to sign up to our Sustainable Procurement and Supplier Policy (SPSP), which reflects our Ethical Policy.

In addition, we use the Procurement Policy to screen new and existing suppliers. In 2014, the Policy applied to all Co-operative Bank procurement activities with a spend of £100,000 or more⁶.

Organisations bidding for four contracts during 2014 were referred for screening against the Procurement Policy. These included a polling organisation and an invoice financing company.

The number of referrals has been limited as a result of the Bank's separation from The Co-operative Group. Bank supplier referrals continued to be managed by Group Procurement from December 2013, when the Bank separated from the Group, until September 2014.

From 2015, the Bank is deploying a new outsourced procurement function and this will continue to implement the Procurement Policy and supplier referrals.

Managing our environmental impacts

Protecting the environment is one of the underpinning goals of our Ethical Policy.

A key element of the Policy is therefore to ensure we do not provide banking services to businesses or organisations that conflict with our commitments on environmental sustainability and we actively support organisations whose activities promote a healthy environment.

We also seek to minimise the Bank's environmental impacts through the way we operate.

Renewable energy and greenhouse gases

We sourced 99% of our electricity from renewables in 2014⁷.

We have maintained our 'beyond carbon neutral' policy for the eighth consecutive year, by offsetting our operational greenhouse gas (GHG) emissions⁸ plus an extra 10% to address legacy issues. We do this by supporting carbon reduction projects, sourced through climate and development experts ClimateCare. These projects provide additional benefits for people and the environment. For example, we support a water filter project in Kenya that not only reduces wood burning, but also improves the health of the communities that use them.

The Bank has offset 104,000 tonnes of carbon since 2006.

WE WILL MAINTAIN OUR 'BEYOND CARBON NEUTRAL' POLICY IN 2015.



6 It applies to goods and services not for resale, classified as high or medium ethical risk, according to an established risk matrix.

7 We source our electricity from Scottish Power on a renewable tariff which is exclusively from wind and small-scale hydro technologies.

8 Remaining emissions from gas, brown electricity, business travel and major occupancy refrigerants once green electricity supply is discounted.

We have been reporting our greenhouse gas (GHG) emissions for more than 15 years. We measure our direct GHG emissions in carbon dioxide equivalent (tCO₂e) using the latest UK Government guidance⁹. Our direct GHG footprint encompasses energy consumption, refrigerant leakages from major occupancies and business travel (air, rail and road). All greenhouse gas data and related commentary are externally assured¹⁰.

Total greenhouse gas emissions by source

Source of emissions	Total emissions (tCO ₂ e)	
	2014	2013(R) ¹¹
Fuel combustion	2,774	3,303
Electricity consumption ¹²	24,335	24,242
Refrigerant leakages ¹³	373	504
Business travel	1,121	1,753
Total	28,603	29,802
Carbon intensity (tCO₂e/FTE¹⁴)	4.87	4.32

“ We're delighted to have worked closely with The Co-operative Bank for over a decade, delivering integrated Climate+Care projects that reduce carbon and improve the health and wellbeing of some of the world's poorest communities. Working together we have offset over 100,000 tonnes of CO₂ since 2006. Our work together continues to inspire other organisations and leaves a lasting legacy for local communities as well as our environment.”

Edward Hanrahan, CEO, ClimateCare



Waste

We reused or recycled 70% of the 2,165 tonnes of waste we produced in 2014¹⁵. Direct comparison with previous years is not possible due to differences in the scope of the data¹⁶. For further information please see the Supplementary information on [page 42](#).

Water and natural resources

We monitor our water usage to help inform better management and reduction of water consumption.

Since 2011, we have reduced total water consumption in the buildings we occupy by 33%. Our average water consumption per site has reduced by 26% since 2011. For further information please see the Supplementary information on [page 43](#).

We specify timber that is Forest Stewardship Council (FSC) certified or high recycled content MDF for all wood in our branches refurbishment programme. A total of 23 branches were refurbished in 2014.

We aim to reduce the impact of our paper use, and our Paper Policy specifies that paper should have high recycled content, any virgin fibres are FSC certified and the paper is manufactured using either a totally or elemental chlorine-free bleaching process.

In 2014, we piloted our new online banking service, which includes the option for customers to choose paperless statements. This has since been made available to all online banking customers (January 2015), helping to reduce our paper use. Early indications are that this is being well received by customers.

Chemicals

We have issued customers with PVC-free credit and debit cards made from the plastic glycol-modified polyethylene terephthalate (PETG) since 2007¹⁷. PETG does not contain or use chlorine in its production. In 2014, we issued almost 1.5 million PVC-free cards and have 3.3 million in circulation. Most other cards in circulation are made of PVC.

Air conditioning systems can potentially be a significant source of greenhouse gas emissions (GHG). For further information about our Air Conditioning Policy please see the Supplementary information on [page 43](#).

9 Department for Environment, Food & Rural Affairs, Environmental Reporting Guidelines: Including mandatory greenhouse gas emissions reporting guidance, June 2013. (www.gov.uk/government/uploads/system/uploads/attachment_data/file/206392/pb13944-env-reporting-guidance.pdf). Since 2013, all UK quoted companies have been required to report on their GHG emissions as part of their annual report and accounts (The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013).

10 Assurance is provided by DNV GL.

11 Data restated due to increasing accuracy of boundary-setting following separation of The Co-operative Bank and The Co-operative Group at the end of 2013.

12 If electricity from renewable sources is accounted as zero carbon, then emissions from electricity would be 300 tCO₂e.

13 Refrigerant gas data includes major occupancy properties only.

14 Average number of full-time equivalent (FTE) employees for the year.

15 Data on weight of waste is not available for all waste streams and sites, and so approximately 5% of the total tonnage is based on assumptions or extrapolations.

16 The reduction in waste arisings in 2014 is mainly due to: improved accuracy of boundary-setting following separation of The Co-operative Bank and The Co-operative Group; the Bank's branch rationalisation programme in 2014; and removing data on waste produced by The Co-operative Insurance, which became part of The Co-operative Group at the end of 2013.

17 We have issued PVC cards under the Britannia subsidiary brand since 2009. In 2014 this was 1% of all cards issued.

Governance of values and ethics

In 2013, we embedded co-operative values and ethical policies into the Bank's constitution through incorporation in our Articles of Association. Our expanded Ethical Policy provides the framework for our work, and in 2014 we established new structures for managing our values and ethics.

Accountability for values and ethics is ensured through the work of the Values and Ethics (V&E) Committee. This is a sub-committee of the Board with an independent chair, Laura Carstensen, who was appointed in May 2014. Laura is a commissioner at the Equality and Human Rights Commission.

The Committee met eight times in 2014. Its work included reviewing plans for the Values and Ethics Poll and the new Ethical Policy. The Committee also considered potential campaigns and partners, the cultural transformation programme rolled out during 2014 ([page 29](#)), as well as ensuring that our approach to product reviews incorporated assessment against the Ethical Policy.

Further information on the role, remit and work of the V&E Committee can be found in our Annual Report and Accounts 2014 (page 62) and Articles of Association¹⁸.

Operational delivery and implementation of the Bank's commitment to values and ethics is co-ordinated by a dedicated Values and Ethics team, which sits within the wider Communications team.

Reporting and assurance

Our approach to values and ethics reporting is guided by the principles of materiality, inclusivity and responsiveness – as set out in the AA1000 AccountAbility Principles Standard (2008)¹⁹.

We appointed DNV GL to independently assure this Report to help improve our performance in future and to enhance stakeholders' confidence in the disclosures made. DNV GL's approach to assurance draws on recognised standards, including the Global Reporting Initiative (GRI), AA1000AS and the International Standard on Assurance Engagements 3000 (ISAE 3000). Their assurance statement can be found on [page 37](#).

For further information please see the Supplementary information on [page 44](#).

¹⁸ www.co-operativebank.co.uk/assets/pdf/investorrelations/annual-report.pdf, www.co-operativebank.co.uk/aboutus/governance/terms-of-reference-for-board-committees.

¹⁹ www.accountability.org/standards/aa1000aps.html



PILLAR 4

ETHICAL WORKPLACE AND CULTURE

WE ARE COMMITTED TO CREATING AN ETHICAL WORKPLACE BOTH IN TERMS OF HOW WE TREAT OUR COLLEAGUES AND HOW OUR COLLEAGUES TREAT OUR CUSTOMERS.

Ethical workplace and culture

We are committed to creating an ethical workplace both in terms of how we treat our colleagues and how our colleagues treat our customers. Guided by our Ethical Policy, we take a twofold approach – through our work to embed our values and ethics in our workplace culture and through the way we treat and reward colleagues.

Ethical culture

*WE ARE COMMITTED TO ENSURING THAT
VALUES AND ETHICS ARE EMBEDDED
WITHIN OUR WORKPLACE CULTURE.*

Refreshing our workplace values

In 2014 we refreshed our workplace values. Our new values were developed with the help of our Board, the Executive team and 2,500 colleagues. Our workplace values have their roots in our heritage and the co-operative values, and reflect who we are and how we work.

We ran 30 Values Workouts for leaders from November 2014 to January 2015. Almost 1,400 leaders attended and were provided with a toolkit and resources to recreate the experience for their colleagues. All Bank colleagues experienced a Values Workout by March 2015.

Values and ethics have been embedded into induction, and will be incorporated into other training as appropriate ([page 33](#)).

Code of Conduct

The Code of Conduct sets out how we expect all colleagues to conduct themselves with other colleagues and wider stakeholders. The Code helps ensure the Bank complies in full with its obligations and takes an appropriate attitude to risk. A separate code covers contractors and agency workers.

We regularly update the Code to provide clarity on the roles and responsibilities of leaders and colleagues, underpinned by our values and Ethical Policy. All colleagues, contractors and agency workers are required to complete a mandatory e-learning module on the Code every year and to agree to comply with it and uphold our values and Ethical Policy.

OUR VALUES

We are committed to ensuring that our workplace values are aligned with our Ethical Policy and co-operative values.

Our values are:

- **Do the right thing**

We are courageous enough to stand up for what we believe in; doing the right thing to make a positive difference to the lives of our customers and communities

- **Take responsibility**

We take personal responsibility in every action, however small; building a sustainable and successful future for our Bank

- **Stronger together**

We co-operate, working together to benefit customers, shareholders, colleagues and communities, because we're stronger together than on our own

- **Step up**

We don't believe average is good enough. That's why we look for ways to make things easier for our customers and our colleagues, moving quickly to take the right action.

Each value has a set of supporting behaviours that will be embedded into our people processes such as recruitment, induction and performance management. From 2015, all employees will be recognised and held to account for 'how' they work, as well as 'what' they do.



Employee engagement

We launched a new employee engagement survey in November 2014 to measure colleague sentiment towards the Bank.

Employee engagement is a broad measure of how colleagues feel about their workplace. The engagement score is based on responses to five questions: advocacy, confidence, commitment, pride and willingness to give discretionary effort that supports productivity and performance.

For 2014 the employee engagement index was 50%. A direct comparison with previous years cannot be made due to the change in methodology. However, there has been a slight decrease in engagement from 2013.

We will use the results of this twice-yearly survey to improve colleague experience and performance within the Bank and to monitor our progress.

Values index

The employee engagement survey also measures how well we are aligning the organisation to our values in how we work, act and make decisions. The values index for 2014 was 49%.

The Bank's 2014 engagement and values indices are low by industry standards, reflecting the significant change that our business and people have experienced over the past 18 months.

We have identified a number of focus areas for action across the Bank, including improved listening and communicating, career development, collaboration and celebrating successes. As part of the roll-out of our new workplace values and supporting behaviours ([page 29](#)), we plan and expect these indices to improve year-on-year.

Whistleblowing

The Bank is committed to ensuring that colleagues can seek advice on and report any work-related concerns that they do not feel able to raise with their line manager, such as unethical behaviour, dishonesty or breaches of internal policy.

We maintain a 'Concern at Work' service through which all colleagues can report concerns by telephone, text and email. All concerns are treated sympathetically and in the strictest confidence by trained internal investigators experienced in dealing with sensitive issues. The employees of suppliers are also encouraged to use this service. The service received 38 correspondences in 2014 (2013: 41).

Rewarding people fairly

We seek to implement best-practice reward strategies and policies that support our business strategy and are aligned with our Ethical Policy.

Our remuneration policies and practices comply and align with the Prudential Regulation Authority / Financial Conduct Authority Remuneration Code and the best-practice principles of the UK Corporate Governance Code. They also include measures to avoid potential conflicts of interest in the way incentive arrangements are designed, to ensure that the interests of customers, employees and shareholders are aligned. We have not operated any sales incentive schemes since October 2012.

We are committed to ensuring we pay men and women in equivalent roles equally, by applying consistent reward policies and practices, and actively monitoring the outcome of these on colleagues' pay on an annual basis.

The Living Wage

We are committed to paying our employees at least the Living Wage. The Living Wage is an hourly rate, which is set independently by the Living Wage Foundation¹ and is calculated according to the basic cost of living in the UK. Employers choose to pay the Living Wage on a voluntary basis.

In our Values and Ethics Poll, customers and colleagues told us that supporting initiatives like the Living Wage, and committing to implement it at The Co-operative Bank, is one of the key ways we can show that we support economic and social development in the UK². We should also encourage all suppliers to help tackle low pay among their workers through initiatives like the Living Wage.

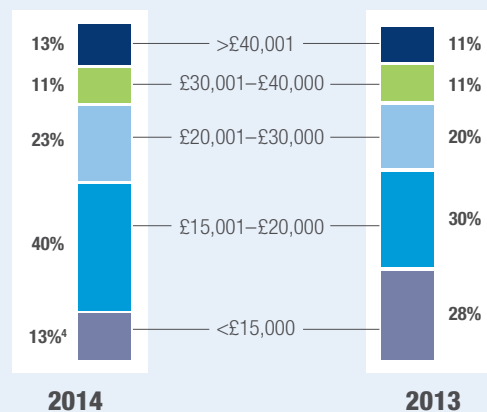
We have ensured that, as of April 2015, all colleagues employed by the Bank are paid a minimum of the Living Wage, with more than 300 colleagues seeing their base salaries increase to this level since then.

We have been working with the Living Wage Foundation, and secured accreditation as a Living Wage Employer in June 2015. We will also be working with our suppliers to agree and implement measures for ensuring they meet the standards we will require of them.

Salary and reward

The proportion of employees paid less than £15,000 halved compared to 2013.

Proportion of employees by salary band³



For further information, including information on part-time working, please see the Supplementary information on [page 45](#).

We are committed to ensuring that pay and rewards for our senior executives are market based, fair and responsible, and linked to individual and company performance. Further information on Executive Director salaries and total remuneration can be found in the Bank's 2014 Annual Report and Accounts ([page 67](#))⁵.

“ We are delighted to welcome The Co-operative Bank as an accredited Living Wage employer. The best employers are voluntarily signing up to pay the Living Wage. The Living Wage reflects the real cost of living, and we want to ensure as many people as possible are assured a fair day's pay for a fair day's work. ”

Rhys Moore, Director, Living Wage Foundation



¹ www.livingwage.org.uk

² www.co-operativebank.co.uk/assets/pdf/bank/aboutus/ethicalpolicy/poll-results.pdf

³ 23% of Bank colleagues work part time, reflecting our approach to work-life balance (a breakdown of part-time and full-time status can be found in the Supplementary information on [page 45](#)).

⁴ Actual figure is 13.5% rounded down.

⁵ www.co-operativebank.co.uk/assets/pdf/investorrelations/annual-report.pdf

Employee benefits

In 2014, colleagues were offered a range of employee benefits above the statutory minimum, such as holidays, pension scheme, childcare vouchers, enhanced maternity and paternity benefits, personal accident and private medical insurance schemes and sick pay, as well as access to an employee assistance programme. In 2014, 86% (2013: 89%) of our colleagues were members of our Pace Pension Scheme.

Employee numbers

We have continued to resize and reshape the business to cut our costs and simplify the Bank in line with our turnaround plan. This has involved some difficult decisions and a reduction in the number of people working for the Bank. Overall staff numbers will continue to fall over the course of the plan. In making such decisions we always try to ensure that colleagues are treated with dignity, respect and fairness.

The average number of people working for the Bank during 2014 was 6,367 (2013: 7,526). Controllable employee turnover was 18.7% (2013: 13.3%)⁶.

Promoting an inclusive workplace

The Bank seeks to promote an inclusive work environment that engages the talents, beliefs, backgrounds, capabilities and ways of working of unique individuals, to create a culture of belonging in which people are valued and respected.

We do this through our Inclusion and Diversity Policy, which is available on our intranet pages along with supporting information. Our membership of external forums, such as Inclusive Employers, Business Disability Forum and Stonewall, provides us with expert support and helps us to develop our approach to inclusion. During 2014, we continued to hold the 'Positive about Disabled People' symbol – a recognition given by Jobcentre Plus to employers who have made five commitments concerning the recruitment, employment, retention and career development of disabled people.

In 2015, we will continue to embed an inclusive culture within the Bank, for example by supporting colleagues to set up a women's network and a Lesbian, Gay, Bisexual and Transgender (LGBT) network, and through the ongoing development of our internal diversity resources and training.

Diversity

A breakdown of employee diversity is shown in the Supplementary information on [page 46](#).

Almost two-thirds (65%) of the Bank's employees are female, with around half of managers (49%) being women. In 2014, two (22%) of The Co-operative Bank Board members were female (2013: 25%).

Three per cent of employees are from an ethnic minority, with the same proportion being represented among managers. We currently hold limited data on ethnicity and disability, and aim to improve data capture in this area.

***WE WILL IMPROVE OUR APPROACH
TO MEASURING DIVERSITY AND
INCLUSION DATA IN 2015***

Health, safety and wellbeing

For further information on our work to create a culture in which people are valued and respected, including health, safety, and colleague assistance, please see the Supplementary information on [page 46](#).

⁶ More information on employee change, including the definition of controllable turnover (which excludes redundancies), can be found in the Supplementary information on [page 45](#).

Training and development

In addition to our Values Workouts and e-learning modules ([page 29](#)), we have also embedded our values and ethics in our induction training. Our values and behaviours will be incorporated into appropriate business and e-learning modules throughout 2015. For further information on our mandatory core knowledge training, please see the Supplementary information on [page 46](#).

Graduates

We recruited eight graduates to our new Graduate Programme in 2014 as part of our commitment to talent and succession planning. We will increase this to 14 in 2015. The programme is sponsored by our Chief Executive and the Executive team, and each graduate is supported by a business mentor and helped to attain a relevant professional qualification.

“The Co-op Bank's Graduate Programme is fantastic! I've been given many opportunities to 'step up' and make a contribution on high profile projects and the level of exposure to Senior Management is truly remarkable. It's also great to work for an organisation that holds such a high regard for values and ethics, which can be seen even at the very highest levels of management. //

Jagvale Singh Swalley, Graduate Trainee

Apprentices

In 2014, we recruited two external apprentices from The Co-operative Academy of Manchester who successfully achieved their Level 2 apprenticeship and are now working towards their Level 3. We also supported 63 internal colleagues to achieve apprenticeships.

Apprenticeships are a tried and tested way to recruit new staff, and retrain or upskill existing staff or people returning to the business after a break.

We are able to tailor apprenticeships to particular roles, and are planning to expand our Providing Financial Services Apprenticeships, which will enable colleagues to gain credits towards professional qualifications and improve their competence.

Employee volunteering

Our employee volunteering programme is a key part of our approach to community investment. Colleagues can take part in team challenges or can volunteer through a variety of individual opportunities.

In 2014, 384 Bank colleagues (2013: 770) contributed a total of 4,048 hours to their local communities through volunteering and fundraising activities. As part of this total, 31 team challenges (2013: 54) were carried out over the year.

Individual volunteering opportunities include Fit4Finance where, in 2014, volunteers helped 863 secondary school pupils understand the world of money management. Bank colleagues also volunteer for Number Partners, which involves working with primary school children to improve their numeracy skills.

We relaunched our Colleague Volunteer Programme in June 2015.



Ethical campaigns

The Co-operative Bank believes that operating with values and ethics goes beyond ensuring we are ethical in how we behave as a business. We have a duty to speak up for causes that reflect our customers' concerns and our Ethical Policy commitments, and are prepared to campaign actively for positive change.

We have a long campaign history. We were the first bank to take a stance on anti-personnel landmines – not only refusing finance to companies profiting from this trade, but also actively campaigning to raise awareness of the issue. And through our Customers Who Care campaigns we tackled issues on all aspects of our Ethical Policy, from the arms trade to human rights, trade justice and climate change.

Our campaigns have helped raise awareness of issues and shift opinion. With the support of our customers and colleagues we have had considerable campaign success. Our 'Cluster bombs – the great clear-up' campaign with Landmine Action helped bring about a new UN Treaty on Explosive Remnants of War. And as part of Friends of the Earth's 'Big Ask' campaign, our customers lobbied every MP in Parliament, playing a key role in the successful call for a Climate Change Act.

***IN 2015 WE WILL DELIVER OUR
CAMPAIGN COMMITMENT WITH
A NEW CAMPAIGN PARTNERSHIP
THAT WILL ACTIVELY ENGAGE OUR
CUSTOMERS AND COLLEAGUES.***

SUPPLEMENTARY INFORMATION

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Ethical workplace and culture

Independent assurance statement

Scope and approach

The Co-operative Bank plc (the “Bank”) commissioned **DNV GL Business Assurance Services UK Limited** (“DNV GL”) to undertake independent assurance of the Values and Ethics Report 2014 (the “Report”), including the Values and Ethics Report Supplement to the Report, as well as GHG emissions and Colleagues’ volunteering data included on [page 33](#) of the Bank’s Annual Report 2014.

We performed our work using DNV GL’s assurance methodology VeriSustain™¹, which is based on our professional experience, international assurance best practice including AA1000 Assurance Standard, International Standard on Assurance Engagements 3000 (ISAE 3000), and the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. We evaluated the report for adherence to the VeriSustain™ Principles (the “Principles”) of stakeholder **inclusiveness, materiality, responsiveness, completeness, neutrality and reliability**.

We planned and performed our work to obtain the evidence we considered necessary to provide a basis for our assurance opinion. We are providing a ‘moderate level’ of assurance².

As part of the work performed we reviewed supporting evidence for key claims and data as well as specified key performance data. We evaluated the performance data using the reliability principle together with the Bank’s data protocols and systems for how the data are measured, recorded and reported. The performance data in scope was:

- Potential non-personal customers and suppliers referred for ethical screening;
- Assets & liabilities that make a positive contribution to society;
- Customer experience score;
- Reportable customer complaints;
- Payment of living wage;
- Equal pay by gender for equal roles;
- Community investment;
- Colleagues’ volunteering (also included in the Bank’s Annual Report 2014);
- GHG emissions (also included in the Bank’s Annual Report 2014 ([page 33](#))).

We understand that the reported financial data and information are based on data from the Bank’s Annual Report 2014, which are subject to a separate audit process by Ernst & Young LLP. The review of financial data taken from the Annual Report and Accounts is not within the scope of our work.

¹ The VeriSustain protocol is available on dnvgl.com.

² A ‘moderate level’ of assurance is defined as obtaining sufficient evidence to support the assurance statement such that the risk of its conclusion being in error is reduced, but not reduced to ‘very low’. A ‘high level’ of assurance would have required additional work at Group and site level to gain further evidence to support the basis of our assurance opinion such that the risk of its conclusion being in error is very low but not zero.

Responsibilities of the Directors of the Co-operative Bank and of the assurance providers

The Directors of the Co-operative Bank plc have sole responsibility for the preparation of the Report. In performing our assurance work, our responsibility is to the management of the Bank; however our statement represents our independent opinion and is intended to inform all of the Bank’s stakeholders. DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement.

We have no other contract with the Bank and this is the first year that we have provided assurance of the Report, since the change of ownership of the Bank in 2013.

DNV GL’s assurance engagements are based on the assumption that the data and information provided by the client to us as part of our review have been provided in good faith. DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

Basis of our opinion

A multi-disciplinary team of sustainability and assurance specialists performed work at the Bank’s headquarters and site level. We undertook the following activities:

- Review of the current sustainability issues that could affect the Bank, and are of interest to stakeholders;
- Review of the Bank’s approach to stakeholder engagement and information provided on its reporting and management processes relating to the Principles. The Bank undertook a series of internal and external materiality polls and workshops in 2014 and we reviewed the outcomes of this process;
- Review of information provided to us by the Bank on its reporting and management processes relating to the Principles;
- Interviews with five selected Directors and Senior Managers responsible for the strategic direction and governance of sustainability issues and review of selected evidence to support issues discussed;
- Site visits to the Bank’s headquarters in Manchester to review processes and systems for preparing site level sustainability performance data and implementation of sustainability strategy;
- Site visit to Balloon Street Business Client Centre in Manchester to review the processes and systems for screening new account opening applications against the [Ethical Policy](#) of the Bank;
- Review of supporting evidence for key claims and data in the report. Our checking processes were prioritised according to materiality and we based our prioritisation on the materiality of issues at a consolidated corporate level;
- Review of the processes for gathering and consolidating the specified performance data and, for a sample, checking the data consolidation.

Opinion

On the basis of the work undertaken, nothing came to our attention to suggest that the Report does not properly describe the Bank's adherence to the VeriSustain™ Principles. In terms of reliability of the performance data, nothing came to our attention to suggest that these data have not been properly collated from information reported at operational level, nor that the assumptions used were inappropriate.

Observations

2014 was a year of substantial change for the Co-operative Bank. The expanded Ethical Policy was launched in January 2015 and is now being implemented. We recommend that the next report outlines the highlights and challenges of the roll-out and also how the Policy will be applied to existing business customers.

We noted that some targets and commitments, mostly qualitative, are presented in the Report. We recommend that the Bank should develop long-term, measurable targets in line with the Ethical Policy commitments and stakeholder expectations, and establish KPIs to report on a regular basis.

Without affecting our assurance opinion we also provide the following observations.

Materiality

The process for determining the issues that are most relevant to an organisation and its stakeholders.

As part of the review of its Ethical Policy the Bank demonstrated an effective process for determining and prioritising material issues. The process considers inputs from a wide range of sources, including the expectations of internal and external stakeholders, megatrends, market environment, and overall sustainability context. The review of the Ethical Policy has helped refine the approach to sustainability of the Bank, and prioritise the content of the Report. We look forward to seeing how these are advanced next year.

Stakeholder inclusiveness

The participation of stakeholders in developing and achieving an accountable and strategic response to sustainability.

The Bank has undertaken extensive stakeholder engagement as part of the review of its Ethical Policy. The engagement considered the views of a wide range of internal and external stakeholders and the outcomes of the stakeholder poll, conducted as part of the engagement, are disclosed publicly. We recommend that the Bank considers further formalising its stakeholder engagement to ensure ongoing engagement with key stakeholders in order to maintain understanding of evolving stakeholders' expectations.

Responsiveness

The extent to which an organisation responds to stakeholder issues.

The Bank has developed a good understanding of stakeholder expectations for its material issues and has updated its Ethical Policy to reflect these expectations. In particular, we welcome the inclusion of feedback from customers and colleagues on retaining the support to social and economic development, and recommend continuing this good practice in future reports.

The Bank should consider enhancing the disclosure on how the expanded Ethical Policy and Co-operative values will be embedded into development of new banking products and services. This should include reporting on the governance arrangements that will be put in place to ensure these offerings remain true to the Policy and Values.

We noted that areas for improvement have been identified with regards to colleagues' engagement, in light of the relatively low engagement score in 2014. We recommend that the Bank discloses progress in these areas in future reporting.

Completeness

How much of all the information that has been identified as material to the organisation and its stakeholders is reported.

The Report provides a good overview of performance across the organisation at corporate level, and includes upstream and downstream impacts of operations and products and services. 'Promoting and protecting human rights, including equality' has been identified as an area of high priority for stakeholders. In the future, the Bank should consider reporting in more detail on how it is incorporating the protection of human rights into its strategy and product development.

We would welcome more clarity on the Bank's strategic approach to supporting social and economic development, and disclosure on progress in the future.

Future reports should continue to use historical comparisons and expand these to include more than one year, where feasible, in order to enable report users to judge trends in performance.

Neutrality

The extent to which a report provides a balanced account of an organisation's performance, delivered in a neutral tone.

The Report discloses both favourable and unfavourable performance data in accordance with the Ethical Policy pillars and commitments. We welcome the discussion on key challenges such as disproportionate market share of basic bank accounts, banking to prisoners and low scores in the employee engagement survey. However, we recommend the Bank to review its reporting in the future to ensure that stakeholders can easily access relevant information around the business turnaround plan and the change of the Bank's business strategy. This should, as minimum, include an explanation of the key challenges that the Bank is facing and the actions put in place to resolve them.

Reliability

The accuracy and comparability of information presented in the report, as well as the quality of underlying data management systems.

The Bank has demonstrated a good process for collecting and reporting on performance data at a corporate level. We found a limited number of non-material errors and these were corrected prior to inclusion in the Report.

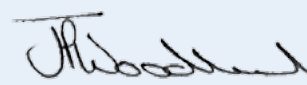
While footnotes in the Report explain main sources of information, estimations, assumptions and variances, we recommend that future reports describe or provide reference to more detailed data protocols used by the Bank to gather and report key performance data.

For and on behalf of DNV GL Business Assurance Services UK Limited, London, UK.

13 July 2015



Anne Euler, Principal Consultant and Lead Assuror, UK Sustainability, DNV GL – Business Assurance



Jon Woodhead, Head of Department and Reviewer, UK Sustainability, DNV GL – Business Assurance

DNV GL Business Assurance Services UK Limited is part of DNV GL – Business Assurance, a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance. www.dnvgl.com.

Supplement to pages 10–13

Notes from Pillar 1: Ethical banking

Ethical screening

Ethical referrals by issue

Referrals by Ethical Policy issue (2014 ¹)		
	Referred	Declined
Labour standards and human rights	145	1 ²
Social inclusion	3	0
Protecting the environment		
Climate change	34	2 ³
Chemicals	2	0
Waste	2	0
Biodiversity	42	0
Protecting animal welfare	42	0
Other	20	1 ⁴
Total	290	4

¹ The expanded Ethical Policy and associated screening criteria came into effect in January 2015. During 2014, all screening was carried out against the former Ethical Policy.

² Human rights-related business decline: Banking facilities for a campaigning group with evidence of discrimination against transgender people.

³ Climate change-related business declines: Banking facilities for two geological services businesses providing services considered strategic to the fossil fuel extraction process (eg exploration and oil and gas field development).

⁴ 'Other' business decline: Banking facilities for a campaign group whose account signatories had recently received criminal convictions for involvement with animal rights groups involved in violent and illegal activities.

Supplement to pages 14–21

Notes from Pillar 2:

Ethical products and services

Supporting social and economic development

Community finance

The CDFI (Community Development Finance Institutions) programme is a partnership between the Community Development Finance Association (CDFA), Government, and The Co-operative Bank and Unity Trust Bank. Each of the two banks provides up to £15 million, which is matched by up to £30 million from the Regional Growth Fund (RGF1). All recipients of funding have had traditional bank funding declined.

The CDFI programme:

- Supported 1,149 businesses.
- The programme is delivered on the ground by 17 CDFIs across England which invest directly in small businesses.
- The gross cost per job to Government is only £3,367. This compares to the national average for RGF projects of £37,400.
- Supported 1,149 businesses across England – 95% of jobs created and saved are outside of London and the South East.
- Creating long-term impacts – As the programme is based on lending rather than grants, the funds are recycled. This enables CDFIs to re-lend the money to other local businesses in future, creating long-term sustainable economic impacts.

For more information about the programme see: www.nao.org.uk/report/progress-report-on-the-regional-growth-fund.

Access to banking

Branches

Proportion of The Co-operative Bank branches⁵ in deprived areas⁶

2014	2013	2012	2011
38%	38%	38%	37%

⁵ Co-operative branches located in deprived areas as a proportion of all Co-operative branches. Based on 222 branches as of 31 December 2014.

⁶ Areas that correspond with the 20% most deprived areas identified in the Government's Indices of Multiple Deprivation for England (2010), Wales (2011), Scotland (2012) and Northern Ireland (2011). Deprivation is considered to be a multi-dimensional problem, encompassing a range of domains such as financial, health, education, services or crime (Venkatapuram and Marmot, 2009). The four constituent nations of the UK have each developed their own index of multiple deprivation, providing a comprehensive assessment of deprivation at small area level within each country, and therefore this is the most appropriate definition in the context of deprived areas within the UK.

Supplement to pages 22–27

Notes from Pillar 3:

Ethical business

Investing in communities

Community investment 2014

	Investment
Cash	£1.41m
Employee time	£0.11m
Leverage	£0.04m
Total	£1.56m

Politics, tax and government

Trade and business association membership fees and donations 2014

Organisation	Membership subscription / fees ⁷
Payments Council	£162,000
Council of Mortgage Lenders (CML)	£107,070
British Bankers' Association (BBA)	£34,375
UK Cards Association	£73,000
European Association of Co-operative Banks (EACB)	£28,935
Co-operatives UK (Associate Member)	£8,200 ⁸
UK Sustainable Investment and Finance Association (UKSIF)	£6,025
Inclusive Employers	£3,900
Intermediary Mortgage Lenders Association (IMLA)	£3,800
Association of Mortgage Intermediaries (AMI)	£3,400
Business Disability Forum	£3,300
Social Enterprise UK	£2,800
Opportunity Now (BITC campaign)	£2,625
National Council for Voluntary Organisations (NCVO)	£2,500
Stonewall	£2,500
Charity Finance Group	£1,700
All Party Parliamentary Group on Debt and Personal Finance (Affiliate Membership)	£1,000
Social Enterprise Scotland	£946
Scottish Charity Finance Group	£110
Total	£448,186

⁷ Excluding VAT, where applicable.

⁸ Part year.

Supplement to pages 22–27 continued

Notes from Pillar 3: Ethical business

Formal meetings between Government Ministers and members of the Bank's Board and Executive 2014⁹

Board/Executive Committee member	Date	Minister	Purpose of meeting
Niall Booker (CEO) and Alice Hunt (Director of Communications)	22 July 2014	Andrea Leadsom MP, Economic Secretary to the Treasury	General discussion on banking
Niall Booker (CEO) and Steve Britain (Director of Strategy and Chief of Staff)	18 December 2014	Andrea Leadsom MP, Economic Secretary to the Treasury	Update on the Bank's progress

Economic value

Direct economic value generated and distributed¹⁰

	2014	2013 (R) ¹¹
Direct economic value generated:		
Revenue	£1,051.3m	£1,284.2m
Economic value distributed:		
Operating costs ¹²	£326.1m	£311.9m
Employee wages and benefits	£304.1m	£274.6m
Payments to providers of capital	£23.0m	£90.0m
Payments to government ¹³	£20.7m	£(20.4)m
Community investment	£1.6m	n/a ¹⁴
Total economic value distributed	£675.5m	£656.1m
Economic value retained¹⁵	£375.8m	£628.1m

Managing our environmental impacts

Waste and recycling

	Total waste arisings (t)	Reused/recycled (t)	Waste to landfill (t)
2014 ¹⁶	2,165	1,508	657
2013	2,637	1,800	837
2012	2,571	1,721	850
2011	2,493	1,350	1,143

We produced 2,165 tonnes of waste in 2014, of which 70% was reused or recycled¹⁷.

9 Also disclosed on the Bank's website www.co-operativebank.co.uk/aboutus.

10 Based on GRI indicator G4-EC1 (www.globalreporting.org/resource/library/GRI-G4-Part2-Implementation-Manual.pdf). Economic value distributed = operating costs + employee wages and benefits + payments to providers of capital + payments to government + community investments.

11 Comparative figures have been restated as disclosed in the Annual Report and Accounts 2014.

12 Including administrative expenses, operating lease rentals and direct expenses from investment properties.

13 Total of income tax received and FSCS levy paid.

14 Previous years' figures were collated as part of The Co-operative Group's overall community investment, and are therefore not comparable.

15 Calculated as 'direct economic value generated' less 'economic value distributed'.

16 The reduction in waste arisings in 2014 is mainly due to: improved accuracy of boundary-setting following the separation of The Co-operative Bank and The Co-operative Group; the Bank's branch rationalisation programme in 2014; and removing data on waste produced by The Co-operative Insurance, which became part of The Co-operative Group at the end of 2013.

17 Data on weight of waste is not available for all waste streams and sites, and so approximately 5% of the total tonnage is based on assumptions or extrapolations.

Supplement to pages 22–27 continued

Notes from Pillar 3: Ethical business

Estimated water consumption¹⁸

We have reduced total water consumption by 33% since 2011.

	Total water consumption (m ³)	Average water consumption per site (m ³)
2014	117,988	364.16
2013	123,111	369.70
2012	128,863	400.20
2011	174,987	490.16

Chemicals

Air conditioning systems can potentially be a significant source of greenhouse gas emissions (GHG) due to their use of hydrofluorocarbons (HFCs).

Our Air Conditioning Policy states a preference for natural refrigerants such as ammonia, lithium bromide or hydrocarbons when systems are being replaced, which have minimal global warming potential and minimal impact on the ozone layer.

Governance of values and ethics

Responsibilities of the Values and Ethics Committee

The responsibilities of the Values and Ethics Committee (as outlined in its Terms of Reference) are:

RESPONSIBILITIES

The Values and Ethics (V&E) Committee shall recommend to the Board for approval and adoption the co-operative values and ethical policies of the Bank and shall represent, monitor and advise the Board on matters concerning the interests of customers, suppliers, employees and other stakeholders in their dealings with the Bank in line with the objects of the Bank as described in the Articles of Association having regard to:

(i) the legal and regulatory requirements applicable to the Bank and its directors;

(ii) the need for the Bank's operations to be commercially sustainable and profitable;

and

(iii) the desirability of maintaining and enhancing the public reputation and image of the Bank.

The V&E Committee shall monitor and report on the following:

(i) customer satisfaction levels (with a focus on service levels and on the product offering in the light of the Bank's ethical policies, in each case assessed by reference to relevant customer metrics);

(ii) alignment of treatment of the Bank's customers with its values and ethical policies;

(iii) alignment of employee training and culture with its values and ethical policies;

(iv) corporate social responsibility, community investment, environmental and other projects and activities of the Bank;

(v) the establishment of a clear 'ethical' policy and 'ethical' strategy informed by customer consultation that aligns with the commercial strategy and is reviewed annually;

(vi) the extent to which executive remuneration policies are consistent with the Bank's values and ethical policies;

(vii) provision of products and services to sectors/organisations with clear social justice or community benefit purpose;

(viii) the development of products and services with 'ethical' features;

(ix) the Company's approach to improving the social and environmental impacts of the Bank's own operations; and

(x) the choice of suppliers, partners and third party relationships which should be informed by the Bank's 'ethical' policy.

For further information please see www.co-operativebank.co.uk/assets/pdf/bank/aboutus/governance/values-and-ethics-committee-terms-of-reference.pdf.

¹⁸ We have metered water bill data for 90% of Bank locations. For the remaining 10% water use is estimated based on 'site average consumption'.

Supplement to pages 22–27 continued

Notes from Pillar 3: Ethical business

Governance, management and reporting on values and ethics

Values and ethics (V&E) strategy and management

Ethical Policy: Our Ethical Policy provides the framework for our work on values and ethics ([page 4](#)).

V&E Committee: Accountability for values and ethics is ensured through the work of the Bank's Values and Ethics Committee (V&E Committee) – a sub-committee of the Board with an independent chair, Laura Carstensen (appointed May 2014). Laura is a commissioner at the Equality and Human Rights Commission and a former partner at lawyers Slaughter and May.

V&E team: Operational delivery and implementation of the Bank's commitment to values and ethics is co-ordinated by a new Values and Ethics team, which sits within the wider Communications team.

In 2014, following separation from The Co-operative Group, key elements of the Bank's V&E activity continued to be delivered by the Group – specifically the Bank's environmental management, community investment (including volunteering), Ethical Policy screening and advice on V&E reporting. In early 2015, a new V&E Manager was appointed to take forward the co-ordination of values and ethics activity, and the team will be expanded further in 2015.

Risk management: We provide a full account of the Bank's approach to, and governance of, risk management, along with an outline of the principal risks and uncertainties we face, in our Annual Report and Accounts ([page 85](#))¹⁹. Reputational risks associated with issues which could be damaging to the Bank's reputation as an ethically led organisation are included in risk management.

V&E management, reporting and assurance principles

Principles: Our approach to values and ethics reporting is guided by the principles of materiality, inclusivity and responsiveness – as set out in the AA1000 AccountAbility Principles Standard (2008)²⁰.

- **Materiality:** We use a range of methods to identify the economic, social and environmental issues that are of relevance to our stakeholders and our business, to determine the significance of those, and to develop responsible business strategies and objectives. This includes considering issues raised by customers, colleagues, other stakeholders and wider business and society interests expressed through, for example, various consultations, our business strategy and risk management processes, societal normal and emerging issues, and external reporting standards and benchmarks.
- **Inclusivity:** Our stakeholders are involved in helping us determine these material issues and ways we can respond. In 2014, we carried out extensive stakeholder engagement, most notably through our Ethics and Values Poll in which more than 74,000 customers, colleagues and stakeholders took part, as well as a programme of regular engagement with wider stakeholders.
- **Responsiveness:** This Report provides examples of how we have responded to the issues raised through these various mechanisms, for example by expanding and relaunching our [Ethical Policy \(page 4\)](#).

Guidelines: We have used a range of other external standards and guidelines in developing this Report, including the Global Reporting Initiative's (GRI's) reporting framework and financial services supplement.

Assurance: We appointed DNV GL to independently assure key performance data and claims made in this Report, to help drive our performance and to enhance stakeholders' confidence in the disclosures made in it. DNV GL's approach to assurance draws on recognised standards including GRI, AA1000AS, and the International Standard on Assurance Engagements 3000 (ISAE 3000). Their assurance statement can be found on [page 37](#).

Scope of this Report

This is our 2014 Values and Ethics Report, published in July 2015. Performance relates to the calendar year 2014 (unless otherwise stated). We also include information from early 2015 where this helps provide an up-to-date picture of our plans for the coming year.

Wherever possible, data presented reflects our business operations in 2014, post-separation from The Co-operative Group. Where this has not been possible (eg, where data capture is not yet completely separated) this is indicated in footnotes. In some cases, also indicated in footnotes, direct comparison of data with previous years is not possible.

¹⁹ www.co-operativebank.co.uk/assets/pdf/investorrelations/annual-report.pdf

²⁰ www.accountability.org/standards/aa1000aps.html

Supplement to pages 28–33

Notes from Pillar 4:

Ethical workplace and culture

Rewarding people fairly

Part-time working

Salary	2014	Full time	Part time
Up to £15,000	14%	81%	19%
£15,001–£20,000	40%	63%	37%
£20,001–£30,000	23%	83%	17%
£30,001–£40,000	11%	92%	8%
£40,001+	13%	93%	7%
		77%	23%

In the Bank, 23% of colleagues work part time, reflecting our approach to supporting a healthy work–life balance. The table above provides a breakdown of colleagues by salary level and part-time and full-time status.

Employee numbers

The overall reduction in employee numbers during 2014 comprised a combination of leavers and new starters to the business. Of the 2,087 leavers, 57% resigned, 27% left through redundancy, and the remaining 16% left for other reasons (eg, TUPE transfer, retirement and dismissal). In the event of redundancy we offer a flexible, individually tailored outplacement support service to help colleagues reconnect to their chosen career or job. This includes practical advice and guidance, help with CVs, and online learning events and courses.

Controllable employee turnover

This is defined as employees who leave the business for one of the following reasons:

Dismissal

- attendance/absenteeism
- gross misconduct
- job performance
- medical severance
- misconduct with notice
- UK eligibility
- unsuitable during probation.

Resignation

- alternative employment
- better career prospects
- better pay
- dissatisfaction/management style
- dissatisfaction/terms of employment
- dissatisfaction/working conditions
- ill health
- leaving area
- long hours
- maternity/pregnancy
- personal/domestic reasons
- violence in workplace
- within probationary period
- by business
- ill health partial
- ill health total.

Absence

In 2014 the absence rate at the Bank was 5.9% (2013: 5%).

Supplement to pages 28–33 continued

Notes from Pillar 4: Ethical workplace and culture

Treating people equally

Diversity

The proportion of employees in each age band has remained stable from 2013, as shown in the table below.

Proportion of employees in each age band

Age band	2014
<24yrs	12%
25–34yrs	33%
35–49yrs	36%
50–64yrs	18%
65+yrs	1%

Proportion of female, ethnic minority and disabled employees and managers 2014

	Female	
	Employees	Managers
2014	65%	49%
2013	65%	53%

	Ethnic minority	
	Employees	Managers
2014	3.1%	0.4%
2013	3.1%	2.6%

	Disabled	
	Employees	Managers
2014	0%	0%
2013	0.01%	0.04%

Employee assistance

All Bank colleagues and their families are offered the services of an employee assistance programme, operated by Validium. This is a 24-hour service for all colleagues, which offers counselling and support on a range of work and personal issues. In 2014, 5% (2013: 3%) of colleagues used these services.

Accidents

The Bank continued to monitor and report accident rates in 2014, in line with Health and Safety Executive requirements. We recorded six reportable and 40 non-reportable accidents in 2014. We are in the process of establishing our own standalone Health and Safety function and bringing management of Health and Safety into the Bank, following the separation from The Co-operative Group.

Employee relations

We recognise the right of our employees to join a trade union if they wish. Colleagues are able to join one of two trade unions recognised by the Bank – Unite and Britannia Staff Union (BSU). We seek to foster stable working relationships with the unions based upon trust and integrity. We schedule weekly meetings, with executive support as required, to inform and keep the unions up to date with strategic and operational developments and to consult on organisational change, terms and conditions of employment and pay.

Training and development

Mandatory Core Knowledge Training

The Bank's Mandatory Core Knowledge Training (MCKT) modules are designed in partnership with Human Resources and Subject Matter Experts across the business, and reviewed annually to ensure that they are relevant to all colleagues and meet the requirements of our regulators.

In 2014, there were 13 modules with multiple choice assessments that all colleagues are required to complete, either as part of an induction for new recruits or on an annual basis for existing colleagues (all customer- and non-customer-facing colleagues, and contractor staff). In 2014, the total number of modules completed was approximately 89,700.

We also offer a range of business-specific and management development training, and in 2014 we delivered more than 16,500 delegate days of training to 4,500 delegates.

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