

Keiron
Co-operative Bank
customer who helped
shape our Ethical Policy

Hannah
Co-operative
Bank customer

Bhupendra
Co-operative
Bank customer

Francesca
Co-operative
Bank customer

Ben
Co-operative Bank
customer who helped
shape our Ethical Policy

Values and Ethics Report 2016



25
YEARS OF OUR
CUSTOMER-LED
ETHICAL POLICY

The **co-operative** bank
It's good to be different

About this report

The Co-operative Bank is the only major UK bank with co-operative values written into its Articles of Association and a customer-led Ethical Policy that guides everything we do, from how we invest our customers' money to the causes we support.

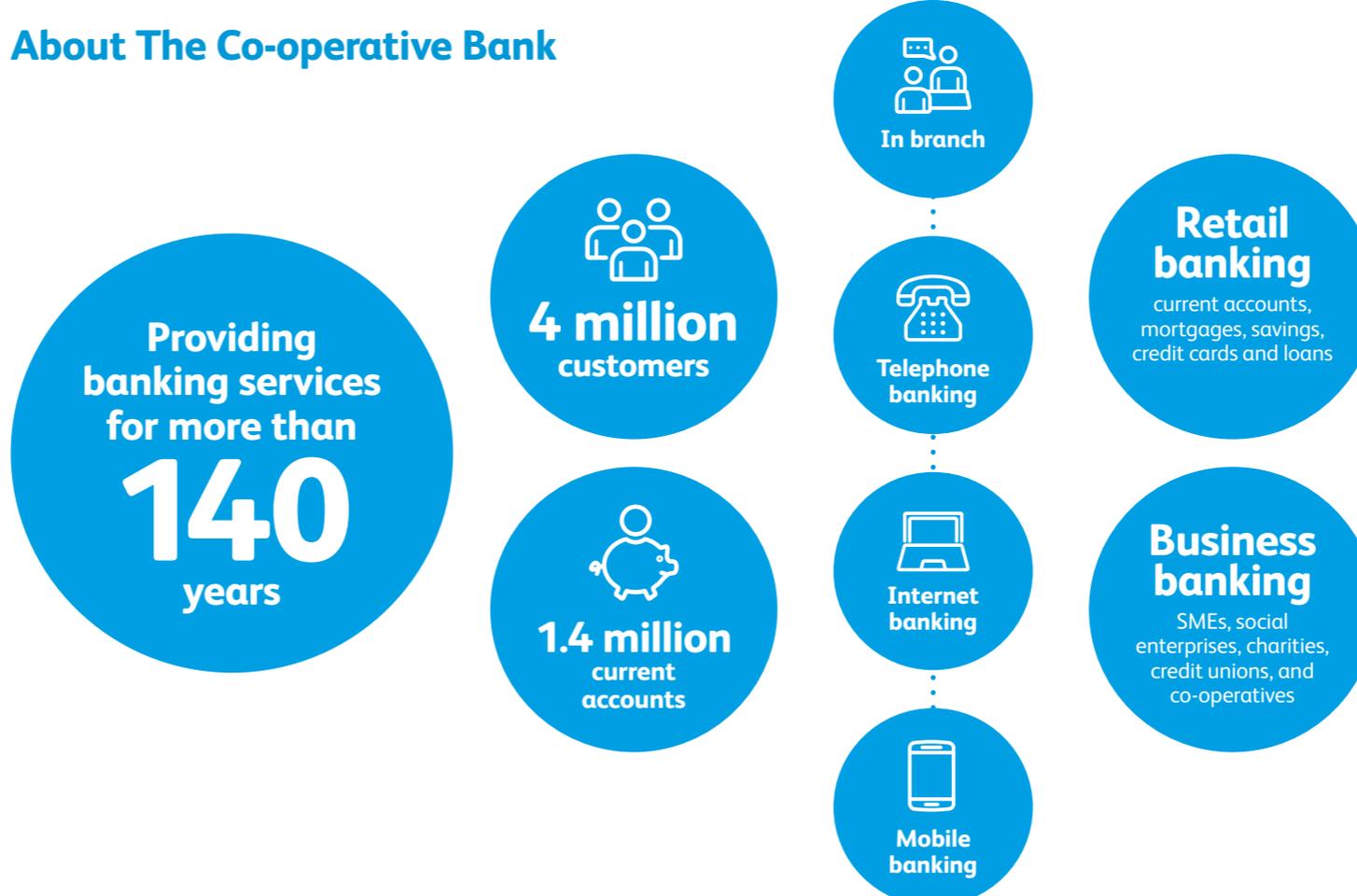


Introduction

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This report measures how in 2016 we have embedded our values and ethics in every part of our business, and how we meet our Ethical Policy commitments, building on our heritage of sustainability reporting. This is our third independent report as The Co-operative Bank.

About The Co-operative Bank



This Report has been independently assured by DNV GL – see page 50.



Liam Coleman
Chief Executive

“We are the only UK high street bank with a customer-led Ethical Policy that underpins everything we do.”

Foreword

2016 was a year of progress and challenge for the Bank, and you can read more about the performance of our business in our Annual Report and Accounts.¹ But it was also a year in which we delivered further progress in embedding values and ethics into everything we do, as we begin the 25th anniversary year of our Ethical Policy in 2017. We continued to launch new products that demonstrate our values and ethics, including our Everyday Rewards proposition, adding value to customers and charities.



Laura Carstensen
Chair, Values and Ethics Committee

The Bank remains committed to benefitting the communities in which our customers and colleagues live and work. Whether it’s helping our customers buy a home, the employment we create, or the services we provide to thousands of small businesses and local charities, we make a difference simply doing what we do. And our Customer Donation Fund donated even more to supporting smaller organisations help their communities.

But we also go much further than other banks; we are the only UK high street bank with a customer-led Ethical Policy that underpins everything we do. This report brings together stories and milestones to illustrate just how our customer-led Ethical Policy sets us apart and the difference it makes.

What makes us different? As well as helping homeowners with £3.1 billion of new mortgage lending and supporting almost 94,000 small businesses, our customers and colleagues provided more than £1 million of support to important causes. We continue to screen every one of our non-personal customers at the application stage, and conduct in-depth screening where necessary to ensure they meet the commitments in our Ethical Policy. In addition, we don’t provide banking services to those

sectors and industries, such as payday loans and fossil fuels, that our customers don’t support. We also made progress on addressing gender pay and representation, having signed HM Treasury’s Women in Finance Charter, setting a target of 40% of senior roles filled by women by 2020.

True to our heritage, our support for communities and co-operatives continued through the re-launch of our colleague volunteering programme; by providing almost £30 million of lending to co-operatives and mutuals, and The Hive, our partnership with Co-operatives UK to support the growth of the co-operative sector.

The big steps forward we took in 2016 in maintaining the Bank’s position as the most ethical provider on the high street, would not have been possible without all of the hard work and commitment of colleagues, and the support of our four million customers.

Thank you.

L. Coleman - L. Carstensen

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Achievements and awards in 2016

Pillar 1 Ethical banking



- Reviewed and updated our ethical screening processes for non-personal customers, screening nearly **200**.

Pillar 3 Ethical business



- Helped our customers donate **£936,542** to good causes through our charity credit cards, Everyday Rewards current account, Community Direct Plus Account and contribution to the Born Free Foundation.
- Provided communities with **£117,572** worth of support through colleague volunteering, payroll giving and our carbon offset programme.
- Reduced our office paper usage by **26.3%** year-on-year and issued more than **1 million** PVC-free cards, with nearly three million bank cards in circulation.

Pillar 4 Ethical workplace and culture



- Signed the Women in Finance Charter, a Government initiative with a clear commitment to increase the number of female colleagues in senior roles by 2020 .
- The percentage of women on our Executive Committee increased from **22%** to **33%**.
- Facilitated **559** colleagues volunteering **4,099** hours to their local communities, including **43** team activities.
- Our colleagues raised more than **£100,000** for important local causes.

Pillar 2 Ethical products and services



- Supported households saving for the future with more than **£4.8 billion** of ISA deposits and **£6 billion** of other savings.
- Helped **1,785** customer to buy their first home and **4,832** customers to move to a new home, through **£3.1 billion** of new mortgage lending.
- Provided **£28 million** of Professional and Career Development Loans to support individuals gaining new skills and qualifications.
- Embedded our new Customer Standards.
- Supported **93,712** small business customers.
- Provided **£13.9 million** of lending to co-operatives.
- Provided banking services to the members of **279** credit unions, around **57%** of the UK credit union sector in 2016.
- Donated more than **£46,000** to **53** community organisations through our Customer Donation Fund.
- Launched a pioneering new referral programme with Citizens Advice Manchester to assist our customers in financial difficulty.
- Reached the £5 million milestone of donations to Oxfam raised through the way our customers use the Bank's products and services.

Pillar 5 Ethical campaigning



- Worked with the British Bankers' Association and its members to start developing a Code of Practice on financial abuse, as called for by our 'My money, my life' campaign.

Awards



- Moneyfacts - Winner 'Best Charity Banking Provider'.
- Moneynet Personal Finance Awards - Everyday Rewards for providing the Best Current Account Rewards.
- Customer Contact Association (CCA) Excellence Awards - Team of the Year for our Financial Support Team and Advocate of the Year for Jo Hurst from Bank Service.
- Moneysavingexpert.com - Ranked 3rd in the current account service ratings, with 72% of customers rating us as 'great'.
- The Bank moved back into the Top 50 brands for customer service, climbing 46 places from 2015.
- We finished the year in the top 4 for our Net Promoter Score.
- Your Mortgage Awards - our Platform brand was named 'Intermediary Lender of the Year'.
- CorpComms Awards - Best CSR programme for My money, my life.
- Financial Services Forum awards - My money, my life voted 'Most effective social media campaign'.

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Our Co-operative values

Values and ethics are central to everything we do and this sets us apart from other banks. Since 1872, when we were originally founded to provide banking services for the co-operative movement, these values have guided us and inspired our Ethical Policy since its launch in 1992.

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Co-operative values

Based on the co-operative values in our Articles of Association, we have developed four Guiding Values to steer our colleagues in everything they do.

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

Supporting Co-operatives

We support the growth of the co-operative sector by providing banking services, lending facilities, and through The Hive.

Launched in 2016, The Hive is a business support programme from Co-operatives UK supported by a £1 million donation from the Bank, available to the nearly 7,000 co-operatives operating in the UK and helping others to start up (for more information on The Hive, see page 19).

Total Business and Commercial Banking lending to co-operatives and mutuals was



in 2016
(£33m restated in 2015)

We provide banking facilities for more credit unions than any other UK bank

In 2016, the Bank's overall credit balances held by credit unions totalled



(£109m restated in 2015)

In 2016, The Hive helped 86 groups and co-ops with



worth of expert advice to co-operative organisations



Our Ethical Policy

In 1992 we were the first high-street bank in the UK to launch a customer-led Ethical Policy, which guides all aspects of our business.

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Co-operative values are all about democracy and people working together towards a common goal, which is why in 1992 we wanted to hear how our customers thought we should run our business.

We used the results to launch a policy that brought to life our values and ethics, and reflected our customers' ethical concerns.

Our policy has been shaped by more than 320,000 customer and stakeholder views over the last 25 years



Five pillars guide our activity

Our Ethical Policy has five pillars, which combine to deliver on our customers', colleagues' and stakeholders' ambitions to deliver some of the most ethical banking in the UK.

<p>1 </p> <p>Ethical banking</p> <hr style="border: 0.5px dashed white;"/> <p>We do not provide banking services to businesses and organisations that conflict with our Ethical Policy.</p>	<p>2 </p> <p>Ethical products and services</p> <hr style="border: 0.5px dashed white;"/> <p>We seek to offer products and services that reflect our values and ethics.</p>	<p>3 </p> <p>Ethical business</p> <hr style="border: 0.5px dashed white;"/> <p>We endeavour to behave ethically in how we run our business, including our relationships with suppliers and external organisations.</p>	<p>4 </p> <p>Ethical workplace and culture</p> <hr style="border: 0.5px dashed white;"/> <p>Our workplace culture reflects our Ethical Policy and our guiding values.</p>	<p>5 </p> <p>Ethical campaigning</p> <hr style="border: 0.5px dashed white;"/> <p>We campaign for social and economic change in line with our values and ethics.</p>
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Ethical banking

Pillar 1

We will not use our customers' money in a way that conflicts with our values and ethics. We strive to support businesses and organisations that share our values and ethics.

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Ensuring that we only lend our customers' money in a way that does not conflict with our values and ethics has always been a key part of our Ethical Policy.

We do not provide banking services to organisations that conflict with our Ethical Policy's commitment to human rights, the environment, international development, and animal welfare, or those involved in irresponsible gambling, irresponsible payment of tax or payday lending. It is this unique mandate from our customers that sets us apart from other banks.

During 2016 we declined banking services for seven organisations:

 **Climate change**

1. A business providing Dynamic Positioning technology training services to the oil and gas sector, which is used to operate, for instance, semi-submerged oil rigs.
2. A geological data business involved in analysis, interpretation, reporting and training for clients operating in the oil and gas sector.
3. A business involved in the design, manufacture and supply of pipeline equipment for the oil and gas sector.

All these were core activities intrinsic to the oil and gas extraction process and therefore a breach of the Ethical Policy.

 **Human rights**

A business involved in the upgrade and design of armoured vehicles that were being exported to Middle Eastern governments classified as oppressive regimes. This was in breach of our Policy position on the transfer of armaments to oppressive regimes.

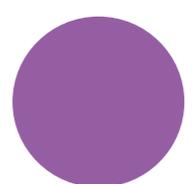
 **Irresponsible marketing**

1. A provider of alternative therapies that repeatedly claimed homeopathic remedies were specific cures for serious and debilitating diseases (e.g. HIV/Aids) and encouraged their use as viable alternatives to conventional medicines.
2. A business involved in the processing of leaf tobacco into rolling tobacco.

Both these activities were in breach of the Bank's position on irresponsible marketing.

 **Beyond the Ethical Policy**

On occasion, the Bank will review business areas not explicitly covered by the Ethical Policy but where there are pressing sustainability or ethical concerns. In one instance, an animal rights campaign group was linked with criminal activities considered outside of legitimate campaigning activities, so we declined to provide banking services to them.



Ethical screening

Our unique screening process ensures that all new and existing non-personal banking customers, such as businesses, are reviewed against our Ethical Policy.

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Embedding our screening process

In 2016, we reviewed and strengthened our ethical screening framework and processes, fully embedding them within the Bank. We also ensured they were aligned to the Bank’s Risk Management Framework. This means we have further minimised the risk of new and existing customers not being compliant with our Ethical Policy.

In 2016, we:

Strengthened our approach to risk

Updated our Risk and Control Standards to explicitly reference Ethical Policy compliance

Updated our screening processes

Provided enhanced training for colleagues opening new customer accounts

Screening new business banking customers

We ask prospective business customers to complete a questionnaire and after an initial review, some customers may be referred to our Ethical Policy Unit for a more detailed assessment.

Our Ethical Policy Unit also reviews all business customers involved in high-risk sectors, such as the manufacture of chemicals. In most cases we commission independent analysis from EIRIS⁴, a leading ethical investment research organisation.

To protect our customers’ confidentiality, we do not name accounts that we have declined.

Screening existing business banking customers

In 2016 we reviewed and updated our Central Screening Exercise, a risk-based review of our existing business customers to ensure they are compliant with our Ethical Policy. At the start of 2017, over 6,000 customers were contacted with details of the updated Ethical Policy and those considered to present the greatest potential risk of conflict with our Policy were required to complete an up-to-date self-certification form.

In 2016 the nature and source of screening referrals was similar to those in 2015, although there was a reduction (35%) in the number of referrals. This is consistent with a similar reduction (10%) in the total number of Business Banking and Community Direct accounts opened in 2016 compared to 2015.

Our Ethical Policy position not to provide banking services to businesses or organisations involved in the manufacture or transfer of indiscriminate weapons¹ has resulted in the Bank being recognised as the only UK-based bank in the Don’t Bank on the Bomb report Hall of Fame² (March 2017) and the Worldwide Investments in Cluster Munitions report Hall of Fame³ (May 2017).



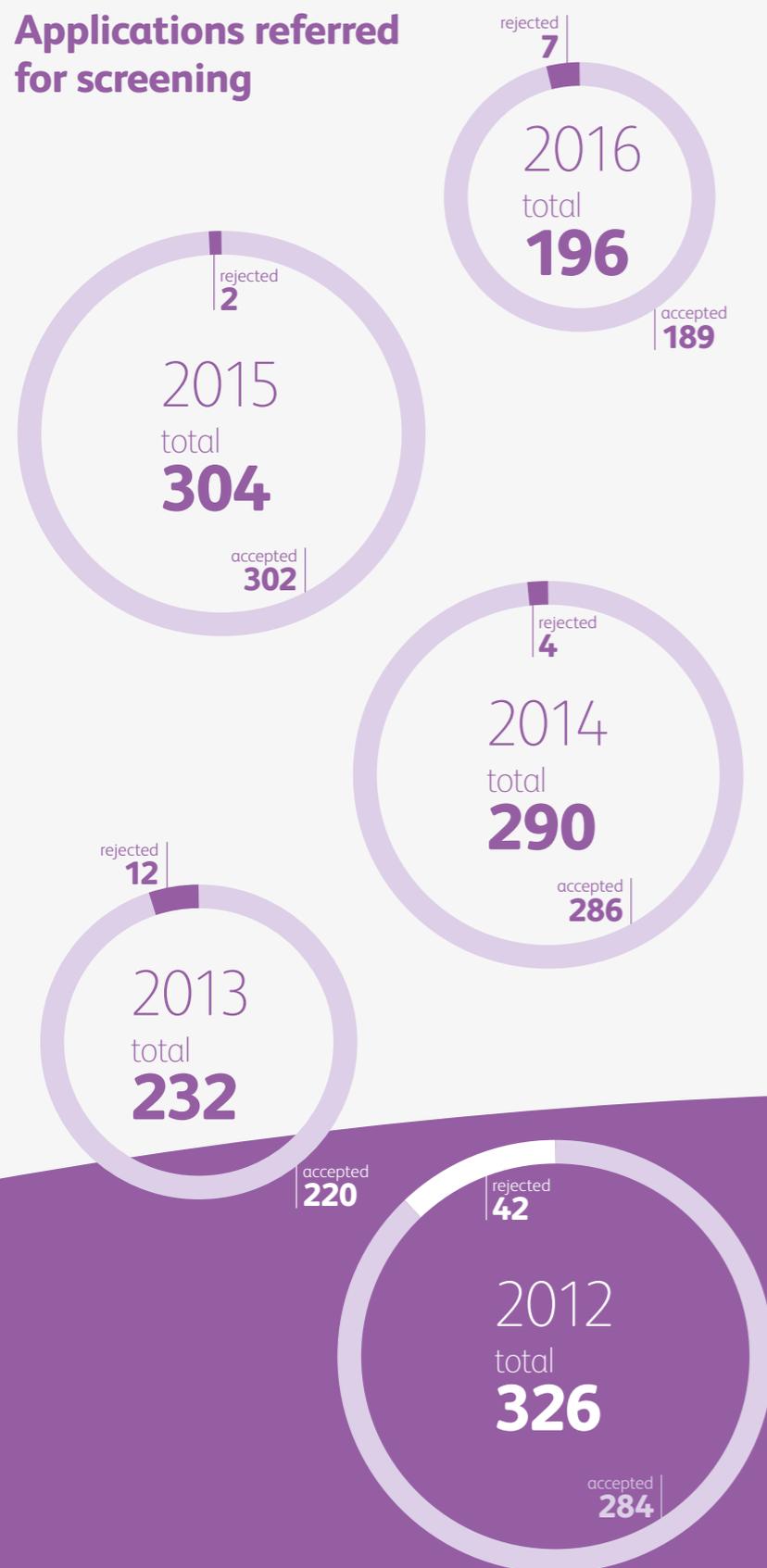
¹ The Bank’s definition of indiscriminate weapons is based on International Humanitarian Law which establishes the principle of distinction between combatants and civilians and aims to protect and limit the effects of armed conflict on civilians. Weapons systems classified as indiscriminate include cluster munitions, antipersonnel landmines, nuclear weapons and depleted uranium munitions.

² This annual report produced by PAX, a member of the International Campaign to Abolish Nuclear Weapons, was launched as part of their Don’t Bank the Bomb project dontbankonthebomb.com →

³ This annual report produced by PAX, a member of the Cluster Munitions Coalition, was launched as part of the Stop Explosive Investments campaign stopexplosiveinvestments.org/report →

⁴ vigeo-eiris.com/en →

Applications referred for screening

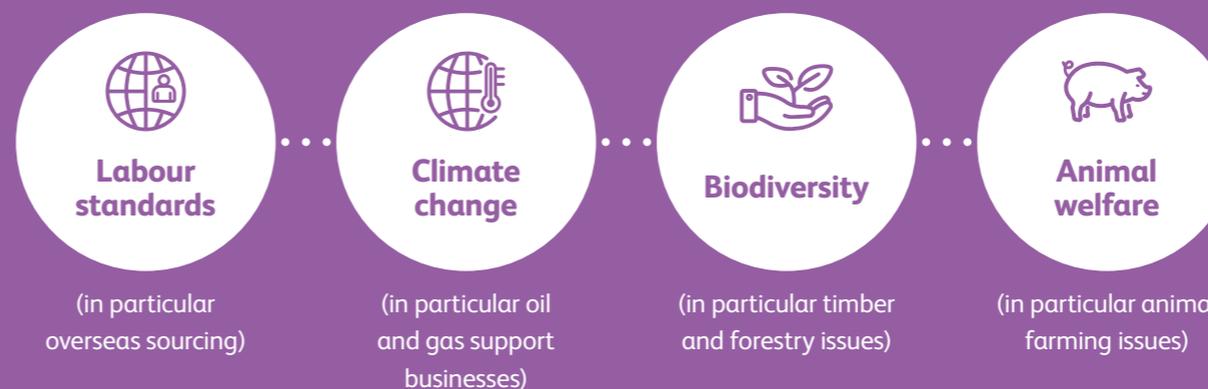


2016 referrals by issue

2016 referrals by issue	Referrals period 1 Jan - 31 Dec (2015)	Declined 1 Jan - 31 Dec (2015)
Labour standards and human rights	79 (125)	1 (0)
Social inclusion	1 (2)	0 (0)
Protecting the environment		
Climate change	26 (31)	3 (2)
Chemicals	1 (2)	0 (0)
Waste	0 (0)	0 (0)
Biodiversity	30 (65)	0 (0)
Protecting animal welfare		
Tax	5 (5)	0 (0)
Gambling	10 (7)	0 (0)
Irresponsible marketing	7 (2)	2 (0)
Other	7 (16)	1 (0)
Total	196 (304)	7 (2)

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The majority of referrals relate to:



Managing our customer risks

As a bank defined by our values and ethics, effective risk management is fundamental to the way we do business.

As we rebuild The Co-operative Bank to focus on retail and small business customers, we have improved our risk management processes to ensure we meet our regulatory and legal obligations. As a result we took steps to review accounts where in the past we failed to fully meet those requirements, and as a result we closed some accounts.

Risk management closures 2016

In 2016, the number of customers exited as a result of our risk management process represented a tiny fraction, just 0.038%, of all personal and business customers holding accounts with the Bank. Following the review of customer accounts, we closed the following:

Customer type	2016	2015
Business	559	47
Community	71	48
Personal	871	503
Mixed use accounts	2	3
Total customer exits	1,503	601

How the Bank manages customer risk

Every product or service we offer such as current accounts, mortgages or loans, and every customer we bank presents us with some degree of risk, even when our customers have done nothing wrong, which is the same for all banks. The Bank's regulators require us to hold capital and meet regulatory requirements based on the amount of risk we manage day-to-day. Like all banks, we agree with our regulators on how much, and the type of risk, we are willing to take on.

In 2014, we reviewed our strategic priorities to focus on becoming a smaller and sustainable bank, primarily dealing with UK retail and small business customers. This was agreed by our Board of Directors and was also reviewed by the Bank's Values & Ethics Committee (see page 35). As a result, the Bank decided to withdraw from a number of sectors, and limit our provision of banking services to exclude:

- Large multinational businesses.
- Organisations undertaking complex foreign currency transactions.
- Organisations such as casinos or payday lenders.
- Unregistered charities or charitable organisations that do not have robust processes for managing financial crime and fraud risks, making or likely to make payments to ultra-high risk countries.
- Individuals convicted of financial crime.
- Individuals or organisations undertaking aggressive tax avoidance.

Improving our risk management processes in 2016

In 2015, the Bank received criticism for the way it communicated the closure of a small number of accounts that belonged to unregistered charities or charitable organisations who made payments to ultra-high-risk countries. As a result, we acknowledged that the way we communicated to customers who were impacted by the closure of accounts fell short of customer expectations and was not aligned to our Ethical Policy commitments.

Since then the Bank has improved its customer communications and established an 'Exit Forum', whose role it is to review account closure activity across the Bank. The Forum consists of senior Bank employees from areas across the organisation, and is designed to add an extra level of scrutiny to our account closure management process. The Forum meets regularly to discuss individual customer cases, identify gaps in existing policy or processes, or highlight actions that may be in conflict with the Bank's values and ethics. The Forum also reviews individual cases that fall outside of our policies to explore what steps can be taken to retain the customer and only when all options have been exhausted does the Forum approve a customer for exit. Where potential values and ethics conflicts occur, the Forum will recommend the closure be referred to the Bank's Values & Ethics Committee for further scrutiny.

Number of accounts referred to 'Exit forum' in 2016

Since March 2016, 116 individual cases have been referred to the Bank's Exit forum for further scrutiny. The types of cases referred to the forum, include individuals or organisations where there is alleged connections with crime, serious organised crime or other criminal activities, which have come to our attention as a result of recent convictions or intelligence through the relevant enforcement agencies. The forum has also considered cases where company directors have been disqualified, or retail customer accounts have been used for business purposes, which is against the terms and conditions of the account. Of the 116 cases referred to the Exit forum, the outcomes are:

Outcome	Cases
Customer accounts closed	59
Further due diligence taking place	4
Remained open	53

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Since March 2016 the total number of individual cases taken to Exit forum has been:

116

Ethical products and services

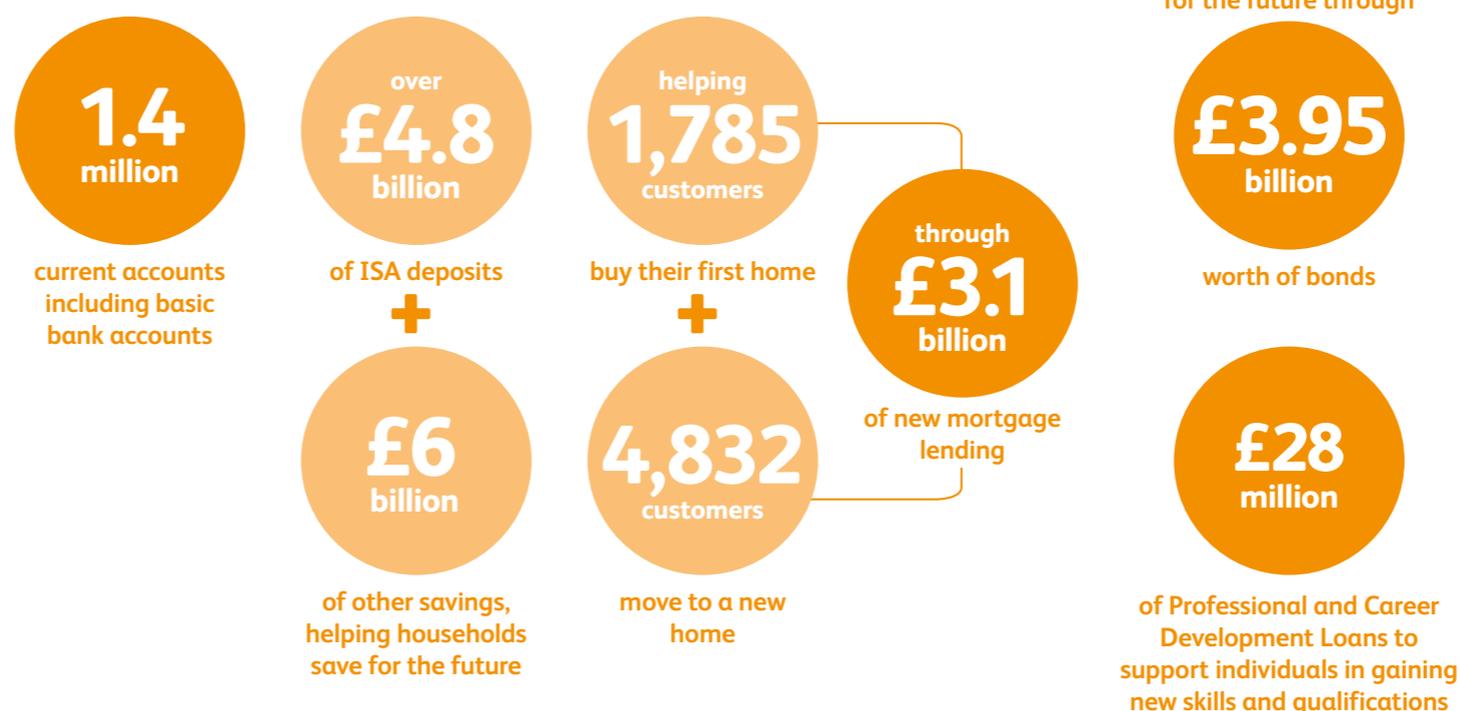
Pillar 2

Our products and services reflect our values and ethics. From our current accounts to our branch network, every household, business, co-operative or charity they serve represents an important contribution to the communities in which we live and work.

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Our focus is on providing a simplified range of products and services to UK retail banking customers¹ and UK-based SMEs,² credit unions and social enterprises, alongside larger charities and co-operatives. Our aim is to provide the products and services our customers need every day, and we do this in a way that reflects our values and ethics.

Supporting communities through everyday banking



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

² Companies typically with a turnover of less than £25 million and borrowing requirements of less than £5 million.

Designing products that work for our customers

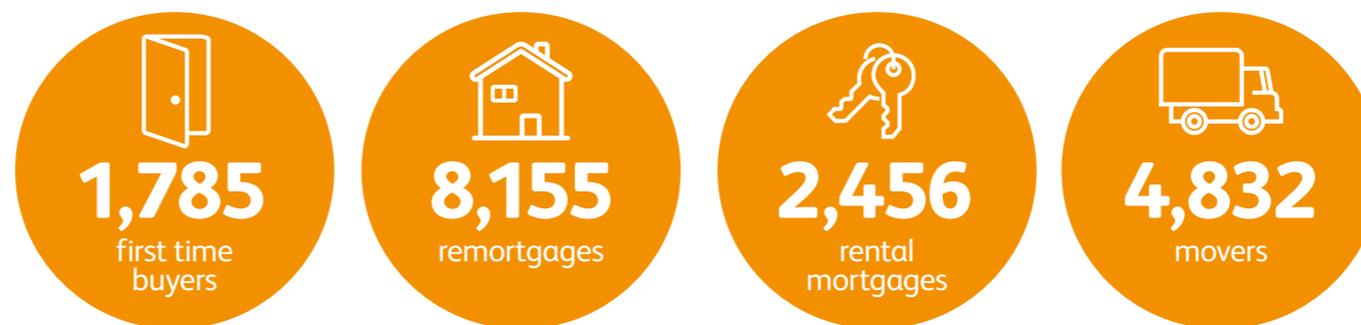
Co-operative values and our Ethical Policy are about working together, and this includes the design of our products and services. In 2016 we launched a new current account, Everyday Rewards, which was co-designed with our customers to deliver what they expect from their current account. Their feedback told us that customers wanted to be recognised and rewarded for their loyalty and banking habits, so our Everyday Rewards account offers the choice of receiving their reward payment of up to £5.50 into their own nominated current account, or donating it to one of our partner charities.

Our Everyday Rewards partner charities:



Supporting communities through mortgage lending

We provide mortgages to many different types of borrowers, from those buying their own home for the first-time, to those looking to borrow additional funds to improve their homes. We also provide Buy-to-Let mortgages through our Platform brand, enabling landlords to purchase property for investment purposes and to support the rental market. Platform was named 'Intermediary Lender of the Year' at the Your Mortgage Awards for the second year running.



In 2016 we helped with 1,785 purchases by first time buyers and 4,832 purchases by people moving home. We also helped 8,155 homes get remortgaged, saving homeowners money on their monthly mortgage payments, and provided mortgages for 2,456 rental properties.

Everyday Rewards

Customers can be rewarded each month up to £5.50, for meeting simple eligibility criteria:

- Customers can earn £4 each month through certain banking behaviours including: staying within an agreed overdraft limit, paying in a minimum of £800, and paying at least four direct debits.
- They can also earn up to £1.50 for debit card transactions (5p per transaction up to 30 transactions). This includes contactless and mobile payments.
- There is no monthly fee for this account

If a customer does not qualify one month, we pro-actively contact them to explain the reason they have not qualified. If they meet the criteria the following month they will qualify for that month's payment.

In 2016 £50,797 was donated between Amnesty International UK, Refuge, Hospice UK, Oxfam and the Woodland Trust, through our customers choosing to donate their payments to charities.

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Customer principles and standards

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.

As well as ensuring that our customers' money is not used in conflict with our values, we create products and services that align to what customers want from an ethical bank by involving customers in the development of new products and through six Customer Principles, which translate into 15 individual Customer Standards. These Customer Standards form the foundation upon which all products, propositions and services are built.

As part of our commitment to developing ethical products for our customers, in 2014, we introduced a more rigorous product development process and in 2016, we continued to use this new process for the second year.

Adherence to the Customer Standards was formally built into our product governance process in early 2016. In order to receive approval to launch, new products need to provide evidence that the product or service fulfils the Customer Standards, thereby ensuring ethical banking is being applied consistently.

In total 62 product launches and changes were assessed against the Standards during 2016, demonstrating that the Standards are now embedded in our product development and review processes.

As part of the annual product review process we also reviewed all of our on-sale products against our new Customer Standards.

Product Development

Our Customer Standards have been integral to product developments such as the balance transfer credit card, our Everyday Rewards current account and our overdraft proposition. Our Balance Transfer Credit Card doesn't penalise customers for small mistakes. Even if customers make a late payment, they won't lose their 0% interest per annum introductory offer.



Keiron
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Professional and Career Development Loans

Professional and Career Development Loans (PCDL) support customers who wish to develop their careers by attaining technical and educational qualifications. We are now the only provider of the PCDL, supporting the Government's ambition to improve skills and productivity.

In 2016
the Bank
provided:



(up from £22.9 million in 2015)



Supporting causes through everyday banking

Our products and services are not only designed to be convenient, competitive and fair, but to enable our customers to support important causes they believe in.

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Charity credit cards

In 2016, our customers raised £829,696 for good causes through our charity credit cards.

Our current range offers five credit cards linked to charity partners Amnesty International UK, Oxfam, Save the Children, Tearfund and the Woodland Trust. Through previously issued cards, our customers also continued to support Christian Aid, Greenpeace and WaterAid. The amount raised fell slightly on 2015 (£961,000), reflecting changes in the credit card market.

Our customers supported nine charitable causes through our charity credit cards including:



Tackling global poverty with Oxfam

In 2016, Co-operative Bank customers helped to raise over £210,000 for Oxfam, taking our total donations to more than £5 million since 1995. Oxfam is a global movement of people who won't live with the injustice of poverty. Together they save and rebuild lives impacted by disasters. They help people build better lives for themselves and speak out on the big issues that keep people poor, such as inequality, discrimination against women and climate change. Oxfam has over 70 years of experience tackling poverty in some of the most difficult places in the world.

Global poverty

With the support of Co-operative Bank card holders, they are able to continue to work in over 90 countries. For example, this support allows Oxfam to have the vital funds needed to continue their humanitarian work, such as in war-torn Syria where they have provided water for more than an estimated 2 million people, and helped those fleeing conflict to neighbouring Jordan and Lebanon.



Sam Tarling/Oxfam

[Find out more about the charity partners →](#)

Local poverty

We provide funding for Oxfam’s Future Skills Training for Women, a structured programme to support women with little or no work experience, or who lack confidence, in getting a job.



Oxfam offers a minimum of eight hours per week in one of their Manchester stores, alongside tailored in-shop training and six personal development sessions guided by a professional mentor, enabling participants to build their retail skills and confidence. At the same time, the project enables volunteers to support Oxfam’s mission to tackle global poverty. Following completion, participants receive a certificate demonstrating the skills and experience they have gained and are then supported with their next development steps. In 2016, the Co-operative Bank enabled 10 women to take part in the scheme in Manchester and the Bank’s staff helped Oxfam to design and deliver career workshops. From the success of the project in Manchester, the Future Skills programme will be rolled out by Oxfam in other locations across the UK in 2017.



Planting more trees with the Woodland Trust

Last year, thanks to the Bank’s Woodland Trust credit card holders, £29,120 was raised for the Trust. This support is helping the charity to plant more trees and progress towards an ambitious aim to plant a tree for every person in the UK over the next ten years – that’s more than 64 million!

One area where new trees are making a significant impact is on the flood blighted banks of the River Severn, Shropshire. Thanks to cardholders’ support, the Trust is working with local farmers to reduce flood risk – tree roots help stabilise banks and reduce erosion. The presence of the trees will boost crop production, wildlife habitats and help create a beautiful landscape.



[Find out more about the charity’s work](#) →

Youth Account - Protecting animal welfare with Born Free

Our Bonus Account, aimed at customers aged under 18, gives free gifts to account holders that have been sourced by the Born Free Foundation. In return, the Bank provides an element of charitable contribution for each gift ordered.

Since 2003, our Bonus Account has **provided more than £276,000 towards animal welfare** and conservation projects around the globe, including anti-poaching units in Kenya and the establishment of a Wildlife, Rescue, Conservation and Education Centre in Ethiopia. In 2016 alone we donated £10,000.



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Ethical business banking

By providing banking services to SMEs, co-operatives and charities, we are supporting the UK economy, job creation and our customers' communities.

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Small business customers



by year end 2016

Loans



positive contribution of Core Business and Commercial Banking assets (eg loans) to society in 2016: £177 million (2015: restated £209m)

Regional Growth Fund



of loans since 2014

Co-operatives



lending at the end of 2016

Deposits



positive contribution of Core Business and Commercial Banking liabilities (eg deposits) to society in 2016: £1,279 million (2015: restated £1,255 million)

Credit unions

providing banking services to the members of



credit unions

Awards

Moneyfacts Awards

In March 2016 our support for charities was recognised at the annual Moneyfacts awards:



'Best Charity Banking Provider'



Nominated Best Business Current Account Provider



Nominated Best Business Card Provider



Nominated Business Start Up Bank of the Year



Nominated Business Bank of the Year

Moneyfacts Five Star Products

The annual Moneyfacts Star Ratings assist customers in identifying financial products and services with exceptional features. We were awarded the following Star Ratings in 2016:



Deposits

In 2016 just under half (47%; 2015 (restated): 47%) of our total end-of-year business banking liabilities (such as deposits) came from social enterprises, co-operatives and environmental businesses. The total end of year balances of these liabilities was £1.28 billion (2015: restated £1.25 billion) out of a total £2.70 billion end of year liabilities (2015: restated £2.65 billion). As a proportion of total end of year liabilities, this remains the same as in 2015.

	2016	2015 restated ³
Public services (including local authorities, health, social and child care and education)	25% (£324.32m)	25% (£315.06m)
Community and charitable sectors (including student unions, trade unions and charities)	54% (£689.63m)	51% (£638.03m)
Co-operatives and mutuals (including credit unions and housing co-operatives)	16% (£198.64m)	19% (£240.79m)
Environmental and social organisations (including international charities, utilities, public transport and social enterprises)	5% (£66.47m)	5% (£61.06m)

Loans

Although the total end of year assets (for example loans) to social and environmental organisations reduced to £177 million in 2016 (2015: restated £209 million) the proportion of our business banking total loan book (assets) remained stable at 41% (2015: restated 40%). This reflects our strategy of reducing our exposure to a number of more complex commercial banking customers, and a focus on deepening our relationships with our existing customers rather than attracting new ones.

	2016	2015 restated ³
Public services, including local authorities, health, social and child care and education	39% (£70.03m)	38% (£78.1m)
Community and charitable sectors, including student unions, trade unions and charities	43% (£75.59m)	45% (£94.7m)
Co-operatives and mutuals, including credit unions and housing co-operatives	17% (£30.41m)	16% (£33m)
Environmental and social organisations, including international charities, utilities, public transport and social enterprises	1% (£0.97m)	1% (£2.8m)

Community finance

The Government’s Regional Growth Fund Programme⁴ provides enterprise funding to small start-ups who are struggling to access traditional bank finance. This community finance in turn protects and creates employment in some of the most socially deprived boroughs in England, and drives investment into local communities.

The Regional Growth Fund Programme was a three year loan programme which launched in 2012 and reached maturity in 2016. The programme is a partnership between Responsible Finance⁵, Government, The Co-operative Bank and Unity Trust Bank.

Each of the two banks provides funding which is matched from the Regional Growth Fund. Through our support for the programme we have provided loans totalling £11.66 million over the last three years. The programme⁶ was co-ordinated through 15 Responsible Finance Providers⁷ and safeguarded or created 8,701 jobs at an average cost of £3,524 per job. The programme allows for capital that has been loaned and subsequently repaid by the programme recipients to be recycled back into the scheme. New lending was approved in February 2017, and we expect to participate in a new round of loans during this year.

Providing banking products for co-operatives

As an organisation with its roots in the co-operative movement, we provide bespoke banking packages for co-operatives in the UK which are free of charges for day-to-day banking transactions, subject to conditions.⁸ We also offer an exclusive credit card for Co-operative Group Members that is fee free and offers cashback on purchases.⁹

Total end of year lending to co-operatives was



at the end of 2016.

(2015: restated £15.9m)

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³ In 2016, the methodology for calculating positive asset and liability totals was changed to use end of year data rather than average monthly data. This is a more accurate presentation of Bank performance and more in line with the Bank’s approach to financial reporting.

⁴ [Regional Growth Fund Policy](#) →

⁵ Responsible Finance was formally known as the Community Development Finance Association.

⁶ Since October 2012, the fund has invested £61m and helped over 2,000 small businesses in all of the English regions.

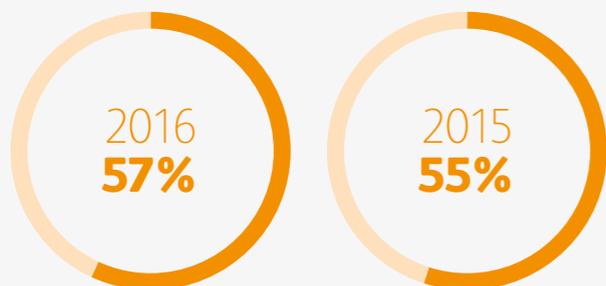
⁷ Responsible Financial Providers were formally known as “Community Development Finance Institutions”.

⁸ In 2017, we continued to operate our Co-operatives Directplus product. From March 2017 this product was repackaged as Community Directplus. It still provides the same free banking offer but is open to organisations classified as charities and social enterprises.

⁹ [The Co-operative Members’ Credit Card](#) →

Providing banking for credit unions

Credit unions are financial co-operatives that offer savings and low-cost loans to their members, many of whom do not have access to traditional banking services. They are particularly important in areas not served by mainstream financial providers.



In 2016 we provided banking facilities for 279 credit unions, or around 57% of the UK credit union sector in 2016, broadly similar to the previous year.



Our overall end of year credit balances held by credit unions totalled £104 million in 2016, compared with £109 million (restated) the previous year.

Customer Donation Fund

Our Community Directplus Account supports good causes in two ways: it provides bespoke banking services for community and charitable organisations, and we donate 20p for every £100 increase in collective balances to our Customer Donation Fund. Community and charity customers can apply for up to £1,000 of project funding from the Fund, with the winners chosen by a panel of colleagues from across the Bank.

In 2016, we donated more than £46,000 to 53 community organisations through our Customer Donation Fund, an increase of over £20,000 since 2015. Since 2003, the Fund has donated over **£701,000 to 815 organisations.**

Case study: The Co-operative Credit Union

The Co-operative Credit Union (open to employees and pensioners of a range of co-operative organisations) relies on the commitment of its employer partners. As well as providing the specialist banking products and services that it relies on every day, we also promote the credit union to our employees. Being only as strong as its members, this helps build the strength of the whole co-operative and ensures that the hundreds of bank employees who have become regular savers and borrowers over the years continue to benefit.



Supporting charities and social enterprises

We provide a wide range of bespoke banking services for charities, community groups, voluntary organisations and social enterprises, who share our co-operative values.

“The Bank remains a major source of credit union volunteers and the skills, values and passion for co-operative finance.

Many retired Bank workers remain loyal credit union members and as the credit union approaches its 20th anniversary since it opened its doors in 1998, its voluntary board of directors looks forward to continuing this valuable relationship.”



Chris Smith | Chair Co-operative Credit Union



In 2016, our end of year lending to charities and social enterprises was £71 million, down from £82 million (restated) in 2015.



In 2016, our innovative Community Directplus and Social Enterprise Directplus accounts offered free banking facilities and gave customers the opportunity to apply for project funding from our Customer Donation Fund.¹⁰



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The Hive is a business support programme from Co-operatives UK and The Co-operative Bank, for people keen to start or grow a co-operative or community enterprise. A range of online resources, advice and training is helping to build more and better co-operative businesses across the UK.

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In 2016, we completed the first year of this three-year £1 million partnership, with The Hive helping 86 groups and co-ops with £74,600 worth of expert advice.

In 2017, The Hive will help over 150 groups and co-ops across the UK with advice and support worth £175,000.

Co-operatives UK

Co-operatives UK, our partner for The Hive, is the network for Britain's thousands of co-operatives. It works to promote, develop and unite member-owned businesses across the UK. Together these businesses are worth over £34 billion a year to the British economy. Find out more at uk.coop.

“ Why is The Hive so important? Through the Bank’s support of The Hive, together we are able to support jobs and growth in a vital part of the economy. But you discover its value when you see The Hive’s impact on the ground.

In Leeds, a worker-owned artisan bakery, Leeds Bread Co-op, has been working with The Hive to put plans in place to grow its customer base and create more jobs. To organisations like this, The Hive has been a vital source of support and inspiration – and over the course of 2017 we anticipate the emergence of many more fantastic co-operative stories.”

Ed Mayo | Secretary General of Co-operatives UK



In 2016:

The Hive helped



The Hive also launched an online community, a forum for new and existing co-ops to ask questions, provide advice and discuss ideas with peers.

thehive.coop



Blake House Film Co-operative, London

“The Hive has helped us address areas we haven't yet had chance to... It's allowed us to develop our HR department and get into place the policy and documentation that we need to develop our co-op. It's also helped us in terms of business and client management, marketing and accountancy.”

Simon Ball | Co-Founder of Blake House Film Co-operative

Leeds Bread Co-operative

Leeds Bread Co-op is an artisan bakery. They have been working with The Hive to put plans in place to grow its customer base and increase the number of employees. Their aim is to produce real bread in a socially and environmentally responsible way, and create a 'food hub' where a range of small food businesses can realise their own visions while collaborating and supporting each other.

Zig, one of the co-owners of Leeds Bread Co-op, said:

“I didn't think I'd ever own my own business. There was so much support when we started out. It is eminently possible if you really are motivated. It's hard work but it's very rewarding.

The one thing that blows me away is that there was nothing there to start with. It was a chance encounter, a conversation. And so many years later you have generated, from absolutely nothing, livelihoods for 16 people, a product that we're all proud of, that didn't exist in 2012.”

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Providing excellent customer service

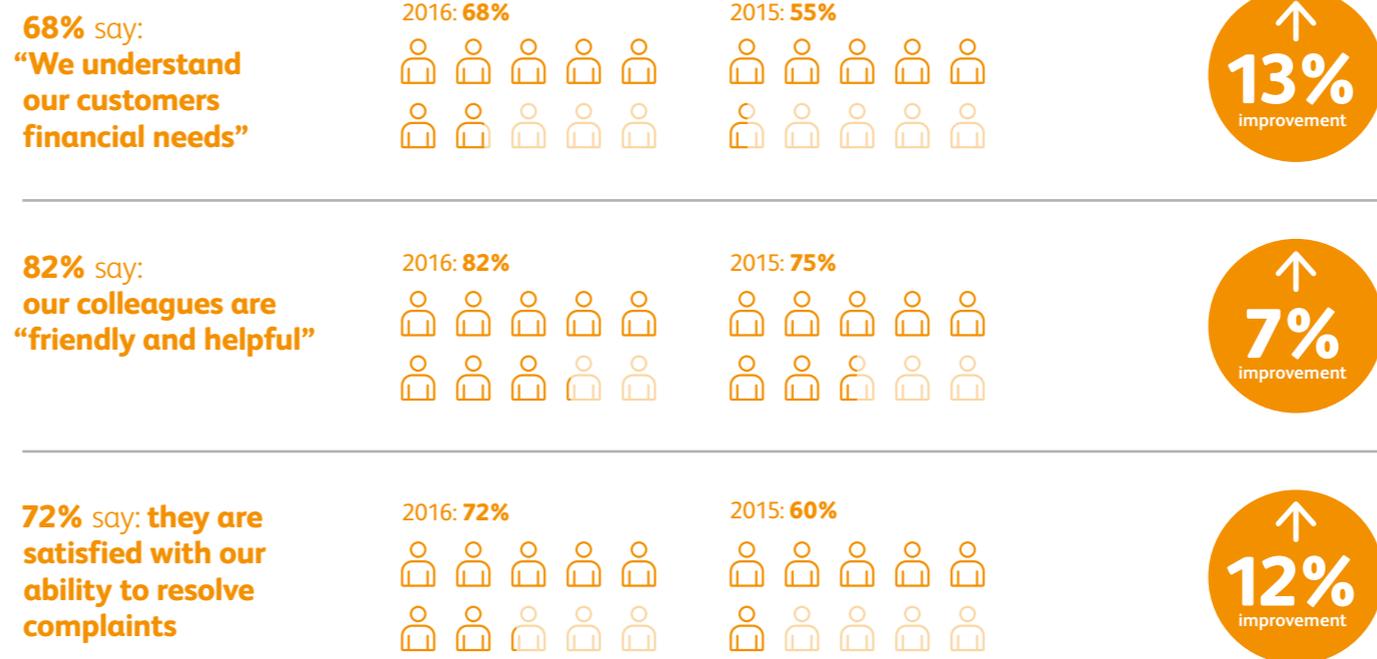
Treating customers fairly is a key part of our commitment to ethical banking. Our customers expect us to act with integrity, and to help and assist them whenever we can, particularly those in financial difficulty or who are vulnerable.

Our aim is to deliver quality, helpful and timely customer service, whether our customers simply need guidance or to resolve a problem they are experiencing. We are committed to making continuous improvement to our customers' experience in our branches, on the telephone or online and achieved a number of major milestones in 2016.



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Our customer satisfaction in 2016¹¹



We finished 2016 in the

Top 4
for our Net Promoter Score

The Bank has moved back into the

Top 50
brands for customer service, climbing 46 places from 2015¹²

Ranked 3rd in the Moneysavingexpert.com current account service ratings with 72% of customers rating us as 'great'

¹¹ Based on findings from GFK →
¹² Institute of Customer Service - UK Customer Satisfaction Index 2016

Listening to our customers

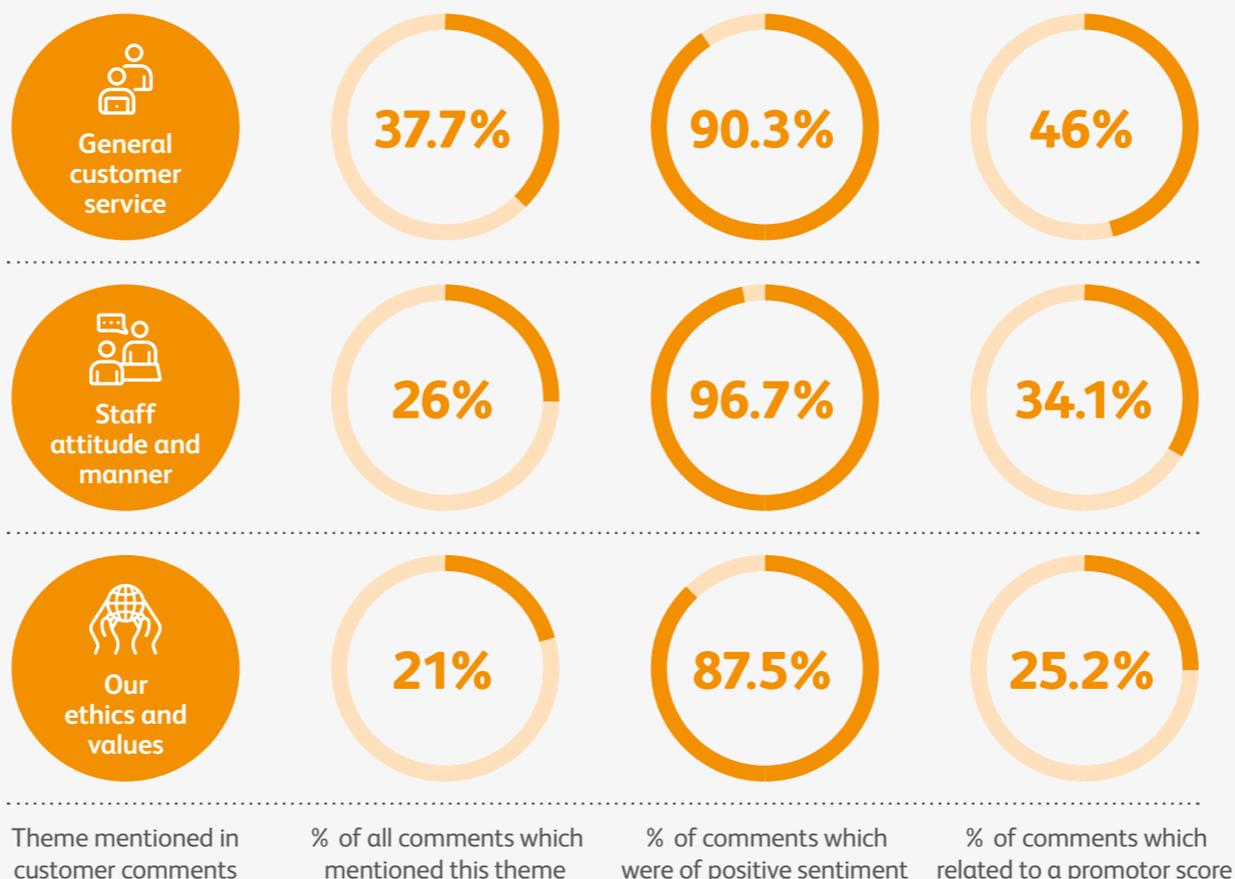
Since 2015 we have been measuring how satisfied our customers are with the service we provide, as well as giving them the opportunity to tell us how we can improve.

We ask customers to complete a Real Time Feedback survey via email or text after they have interacted with us through our branches or our contact centres. We use this feedback to coach individuals and support improvements to our customer experience activity. In 2016 we introduced further surveys, including our dedicated complaints area, and we received a total of 165,000 surveys throughout the year.



Real-time customer feedback

Our real-time customer feedback revealed that in 2016, the top 3 reasons customers would recommended us were:



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Best Current Account Rewards

Our Everyday Rewards current account was recognised at the 2016 Moneynet Personal Finance Awards for providing the Best Current Account Rewards.

Team of the Year Advocate of the Year

We won 'Team of the Year' for our Financial Support Team and 'Advocate of the Year' for Jo Hurst from Bank Service at the Customer Contact Association (CCA) Excellence Awards.

Team of the Year - Loving your Customer

The Digital User Experience team won the 'Team of the Year - Loving your Customer' Award at the UK Financial Services Experience Awards.

Improving our customer service in 2016

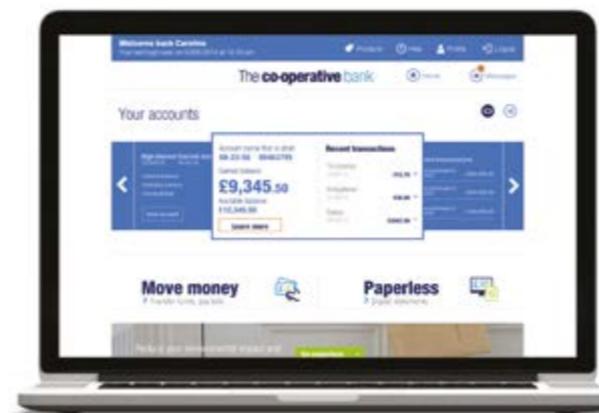
New Online Banking

In 2016 we launched a new online banking platform for our 1.4m current account customers, our biggest IT upgrade in the last decade. Part of the success of the new platform, launched to groups of customers over 2016, was our use of customer feedback to identify how to improve the experience for each subsequent group moving over to the new system.

Customers told us what they thought of the new platform. They commented on how we could improve the registration process for the new site, streamline our customers' login journey, and improve signposting for resetting passwords.

Making it easier to bank with us

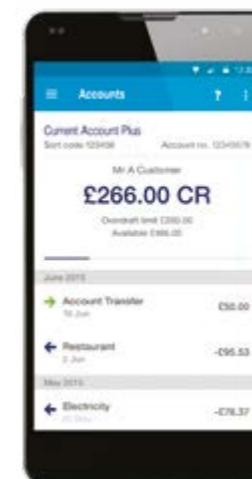
During 2016 we reviewed our account opening process and the feedback we had received. We will be introducing a number of improvements in 2017, ensuring that opening an account with us is as easy as possible, from providing guidance on the application form to making sure customers are kept informed along the way.



In 2016 we focused on two processes that we call customer 'moments of truth'. We call them that because these are often stressful moments where our customers need us to get it right every time – moments such as dealing with Power of Attorney and Registration of Death. Following a series of workshops, a number of improvements will be implemented in 2017.



During 2016 we received feedback from our customers about our automated telephony banking system and the impact this has on their access to banking. As a result, we have prioritised this as our first major project for 2017.



Reportable Complaints

Every six months, we submit information to the Financial Conduct Authority (FCA) about the complaints we've received from our customers. The information includes details of the number of complaints we receive, how many we've closed and how many we've upheld – found in favour of the customer.

We publish the full data on our website →

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Access to banking

Our network of branches remains an important part of our overall customer service offering, alongside our digital and telephone channels.

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Our customers are increasingly using our digital and telephone channels to contact us and the number of customers using branches continues to decline. In 2016, we continued our investment in digital, launching our new online and mobile banking service.

Our branch network

Our branch network remains an important part of our multi-channel service and we continue to review customer behaviour as the declining trend in branch footfall continues. In 2016 we completed the closure of 59 branches. This was after seeing an average fall in counter transactions at the same time as an increase in transactions through our digital channels.

When closing a branch we follow the Access to Banking Protocol, which sets out good practice for how we communicate with customers and colleagues. During 2016 we also participated in the “one year on” review of the Access to Banking Protocol and we will be taking forward its recommendations in 2017.

Branches at the end of 2015 164

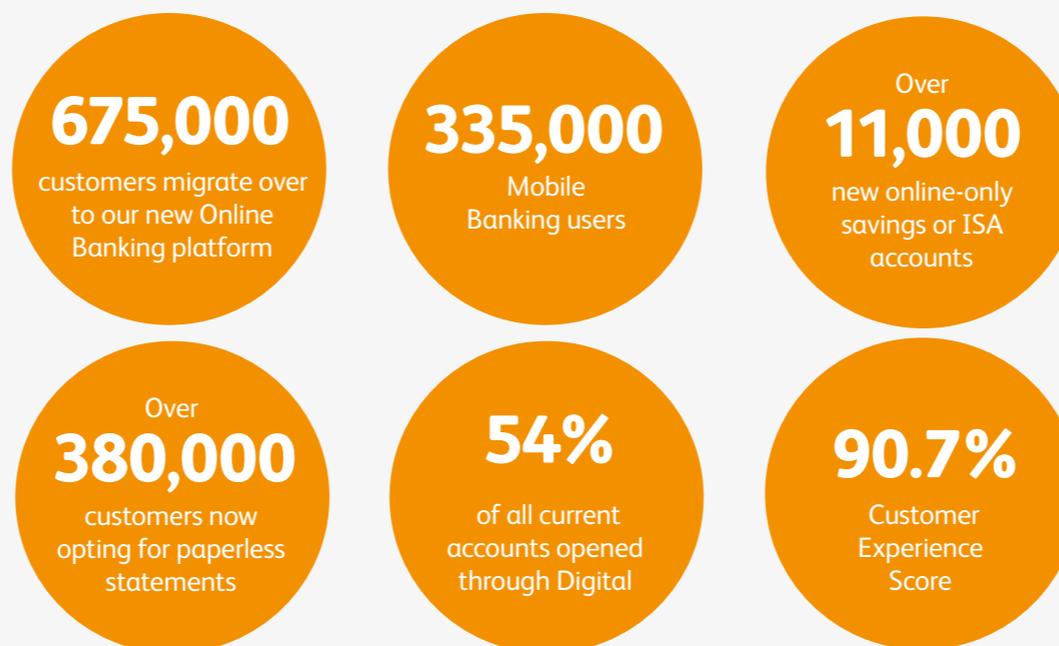
Branches at the end of 2016 105

As we reshape and resize our branch network, we no longer actively monitor the number of branches in deprived areas, and so have not included that data in this year’s report. Our customers can service their accounts through the comprehensive Post Office branch network, as well as online and through mobile banking.

Going digital

Our digital strategy always seeks to fit the needs of our customers, more and more of whom prefer to take a mobile approach to banking. In 2016, we saw:

The development of do-it-yourself technologies, including Digital Mortgage in Principle, Business Banking Online and Mobile Banking enhancements



Post Office access

All Co-operative Bank customers, wherever they live and work, can make everyday banking transactions via the **Post Office’s network** of over **11,500 access points** across the UK; around **6 million customer transactions** were carried out via the Post Office network in 2016.



Our cash machine network:

The number of cash machines at the end of 2016 fell to 126 (2015: 142) reflecting the fall in the number of branches.



Our customers can also access the UK network of 53,000 free cash machines.¹³



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

Basic bank accounts

As part of our commitment to increasing financial inclusion, we continue to offer a basic bank account called Cashminder for customers who otherwise may not be eligible for our standard current account.

Cashminder provides basic banking features, such as the ability to pay bills by Direct Debit and can help customers to organise their finances and increase their confidence in managing their money.¹⁴

During 2016 we supported the Government's publication of basic bank account data, demonstrating our ongoing commitment to financial inclusion.

At the end of 2016 we had more than **300,000 Cashminder accounts**.



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Talking ATMs

All our 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. We were the first bank in the UK to offer these talking cash machines, and this was highlighted by the RNIB.

[Read more about RNIB here](#) →



¹³ link.co.uk/about-link/statistics/ →

¹⁴ co-operativebank.co.uk/currentaccounts/cashminder →

Supporting our customers

Our Ethical Policy guides our day-to-day relationship with our customers as well as ensuring we go the extra mile to support them in times of difficulty.

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Helping customers in financial difficulty

We recognise that financial difficulty can come in many forms, and each customer's circumstances are unique to them. By referring our customers for help and advice, it allows them to get independent help which looks at their overall position and allows them to tackle their debt in a more holistic way.

We support customers by providing individual payment plans tailored to their individual needs. In 2016 we introduced a dedicated customer care team to support particularly vulnerable customers with highly complex issues which impact on their finances.

Partnering with StepChange

We work closely with StepChange debt charity who offer confidential, free, impartial and independent debt advice. In 2016 over 600 of our customers were supported by StepChange and at the end of 2016, they were working with nearly 3,000 of our customers in total. We contribute to StepChange through a 'fair share' contribution, calculated as a percentage of the repayments it collects on our behalf.

Partnering with Citizens Advice Manchester

In 2016 we launched a pioneering new referral programme with Citizens Advice Manchester. We provide funding for their colleagues to work with our particularly vulnerable customers. Uniquely, this resource will support customers in financial difficulty, looking at their overall financial and personal circumstances, and not just the accounts they hold with us, helping to get to the root cause of their difficulties and help them get back on track.

Case study

Jane is married with three children, twins and a new born baby. Her husband has a job, but after being made redundant, is currently on a zero-hours contract. This means his income could fluctuate from week to week and the family had no other income.

Jane told Citizens Advice Manchester that her and her husband had not been able to afford food, and in an effort to keep their home warm had gas and electricity arrears. Jane was extremely stressed and worried about the situation.

An emergency referral was made to Jane's local Citizens Advice to receive a food parcel. A benefit check was carried out which identified that Jane and her family were entitled to two benefits, which she was supported to claim to significantly increase the family income. She was also supported to switching to a cheaper energy tariff, and to apply to an Independent Trust Fund to clear the arrears. Jane was also provided with a budgeting tool to help her and her family manage their income in the future.

What is a vulnerable customer?

A vulnerable customer is someone who, due to their personal circumstances, is especially susceptible to personal or financial detriment. This could be due, but not limited to a serious illness, scams aimed at elderly customers or those in challenging circumstances, or when a customer is less able to represent their own interests.

Helping vulnerable customers

We are committed to improving how we support our vulnerable customers. In 2016 we introduced mandatory e-learning for all Bank colleagues to increase awareness and provide further guidance to support colleagues when dealing with vulnerable customers. We also implemented an escalation support line for colleagues across 30 branches, enabling them to receive expert guidance.

Code of Practice on Financial Abuse

As part of our My money, my life campaign to raise awareness of those experiencing financial abuse in intimate relationships, we have reached agreement with major banks to develop a code of practice. This will set out what banks should do when they suspect a customer is a victim of financial abuse. The code will be developed during 2017. Further information can be found on page 48.

Ethical business

Pillar 3

We are committed to running our business ethically, including our relationships with suppliers and external organisations.

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Conducting our business with honesty and transparency is at the heart of our Ethical Policy. Our Policy encompasses commitments around the way we manage our impact on communities and society, our environmental impacts and relationships with our suppliers and external organisations.

Investing in communities

We are passionate about supporting the communities in which our customers and colleagues live and work. Our products and services enable our customers to support important causes when undertaking their day to day banking (page 12), and our colleagues are able to provide support through fundraising and volunteering opportunities (see page 44).

Supporting our communities

In 2016 our customers supported good causes with donations as follows:



Investing in society

‘Economic value generated and distributed’ is defined as 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 governments, donations to charitable causes, and, if relevant, as profit and reserves to owners¹.

In 2016, we contributed £753.6 million to national wealth².

Economic value

Direct economic value generated and distributed ¹	2016 £m	2015 (R) ² £m
Revenue ³	737.8	821.6
Economic Value distributed	2016	2015²
Operating Costs ⁴	500.1	503.7
Employee wages and benefits	199.8	202.9
Payments to providers of capital	43.91	22.66
Payments to government ⁵	8.7	20.8
Community Investment	1.1	1.4
Total economic value distributed	753.6	751.5
Economic value retained⁶	-15.8	70.1

Corporation tax

As an ethical business we are committed to complying fully with our tax obligations and not undertaking tax planning that could be considered socially irresponsible. To demonstrate this commitment, the Bank is one of the original signatories of the Government’s voluntary Code of Practice on Taxation for Banks.

Our 2016 corporation tax details are disclosed in our Annual Report and Accounts⁷.

Political support

The Co-operative Bank does not support or donate to any political party, politician or party political campaign group. Each year, 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. See page 29.



Keith
Co-operative Bank
customer who helped
shape our Ethical Policy

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1 Based on GRI indicator G4-EC1 →

2 Comparative figures have been restated due to re-presentation of operating costs in the Annual Report and Accounts 2016.

3 Revenue comprises of interest receivable and similar income.

4 Including operating lease rentals, other administrative expenses and other staff costs - mainly contractors.

5 Total of income tax received and FSCS levy paid.

6 Calculated as ‘direct economic value generated’ less ‘economic value distributed’.

7 Page 178, 2016 Annual Report and Accounts →

Membership Fees and Donations

Membership fees are calculated by the organisations and are normally based on our annual turnover and exclude VAT, where applicable.

Organisation	Membership subscription / fees
Payments UK	£95,815
UK Cards Association	£94,493
Council of Mortgage Lenders (CML)	£80,300
Lending Standards Board	£51,000
Banking Standards Board	£50,000
British Bankers' Association (BBA)	£38,450
Professional Planning Forum	£15,445
Co-operatives UK (Associate Member)	£8,200
Diverse Recruitment Institute for Value and Excellence (DRIVE)	£5,000
Intermediary Mortgage Lenders Association (IMLA)	£4,000
Association of Mortgage Intermediaries (AMI)	£3,500
Business Disability Forum	£3,500
Inclusive Employers	£3,250
Creating Inclusive Cultures	£3,000
Business in the Community Gender Campaign	£2,800
Social Enterprise UK	£2,800
National Council for Voluntary Organisations (NCVO)	£2,500
Stonewall	£2,500
Charity Finance Group	£1,785
All Party Parliamentary Group on Debt and Personal Finance (Affiliate Membership)	£1,000
Social Enterprise Scotland	£946

Public policy engagement

We work with governments and our regulators to tackle social and public policy challenges, whether increasing financial inclusion, or improving switching in the personal current account market. We also regularly communicate with our political stakeholders to let them know about the work the Bank is doing, such as our campaign on financial abuse, My money, my life (see page 48).

In 2016, The Co-operative Bank:

- Gave evidence before the House of Lords Financial Exclusion Committee, setting out the work we do to help those hardest to reach customers.
- Supported the “one year on” review of the Access to Banking Protocol, providing funding for the review and committing to take forward its recommendations in 2017.
- Continued to engage with policy makers and politicians to share ours, and our customers’ views, on key issues and support key Government initiatives, such as the Women In Finance Charter, to which we are committed.

[View Access to Banking Protocol](#)



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Our supplier relationships

Behaving in an ethical manner extends beyond our colleagues and our products and services. We aim to encourage ethical behaviour through our supplier relationships.

We carry out our activities in an ethical and sustainable manner and we encourage our supply chain to minimise the negative environmental and social effects associated with the products and services they provide.

The Co-operative Bank Sustainable Procurement and Supplier Policy

We expect our suppliers to adopt the principles of our Sustainable Procurement and Supplier Policy (SPSP). This Policy sets out the Bank's approach to procuring products and services in a responsible and sustainable manner, and sets minimum expectations for current and prospective suppliers. It builds on the key principles of our Ethical Policy and helps translate them into something meaningful for our suppliers.

In 2016, we further enhanced our supplier screening processes for new and existing suppliers to the Bank. As a result, compliance with this policy is now an integral part of the supplier on-boarding process, and is also factored into the annual review of suppliers managed under the Bank's Supplier Management Framework.

Modern slavery statement

Our Ethical Policy outlines our commitment to uphold human and labour rights around the world, including modern slavery. In 2017 we will publish our Modern Slavery Statement, outlining the policies we have in place to prevent modern slavery in our business and our supply chains.

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Our core commitments

we promise to:



Pay suppliers on time within our agreed terms of business



Operate to the highest professional standards



Conduct any tendering and assessments in a fair, open and honest manner



Carry out regular sustainability assessments of key suppliers



Seek to procure products and materials from recognised responsible sourcing schemes

we expect our suppliers to:



Increasingly utilise renewable energy and manage resources efficiently



Minimise waste and maximise recycling



Reduce reliance on persistent and bio-accumulative substances



Embrace natural products and services



Treat people in an enlightened manner against recognised ethical considerations

Managing our environmental impacts

Protecting the environment and promoting sustainable development have always been cornerstones of our Ethical Policy. We support international efforts to tackle climate change, actively support organisations whose activities promote a healthy environment, and we do not provide banking services to customers that conflict with our commitments.

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Climate-care and carbon off-set

In the last few years both the UN Sustainable Development Goals and the Paris Agreement reaffirmed the world’s commitment to tackling climate change and achieving a sustainable future.

Since 2006, as part of our ‘Beyond Carbon Neutral’ policy, we have offset our operational greenhouse gas (GHG) emissions, plus an extra 10% to address legacy issues. In that time we’ve offset 113,000 tonnes of carbon dioxide.

But our offset has always been about more than carbon emissions. We support carbon reduction projects which improve health and reduce poverty in some of the world’s poorest communities. In doing so we cut carbon emissions and make a measurable contribution to sustainable development.



UN Sustainable Development Goals (SDGs) →

Here’s how our offset through the LifeStraw Carbon for Water project in Kenya and Gyapa Stoves project in Ghana (see page 32 for more details on both of these projects) contributed towards five key United Nations Sustainable Development Goals in the last year:



No poverty SDG 1

Through our support of the Gyapa stoves project, we have saved over 10,000 people money in reduced fuel costs. The Gyapa stove is 50-60% more efficient than the cooking methods it replaces.



Good health and wellbeing SDG 3

Through our support of the LifeStraw project (page 32), the Bank has helped provide over 6 million litres of clean water over the course of a year, tackling waterborne diseases such as cholera and dysentery.



Gender equality SDG 5

In Ghana, traditional cooking techniques disproportionately affect women, who are often burdened with collecting wood or charcoal for fuel. By supporting efficient cookstoves, we’re reducing the time women spend collecting fuel.



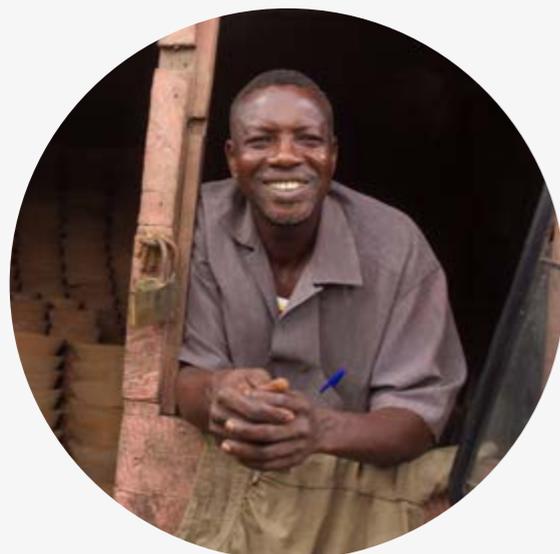
Clean water and sanitation SDG 6

Through our support of the LifeStraw project, the Bank has provided over 5000 people with clean water, directly contributing to SDG number 6.



Climate action SDG 13

The Bank’s support of the two projects offset 4154 tonnes of carbon dioxide, balancing our operational emissions plus an extra 10%.



Case Study:
Mr Ebrahim 'Lucky' Dowda - Stockist

The Gyapa Stoves project

Through the production and manufacturing chain, highly skilled ceramists and metal artisans have guaranteed employment for their manufacturing services. Currently around 12,500 ceramic stove liners are produced each month through 350 manufacturers. In addition, more than 500 local retailers benefit from selling the Gyapa stove.

“I can sell 900 liners a month which gives me enough money to send my son to school.”



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Case Study:
Susan Njerumani - Farmer and beneficiary of the LifeStraw Project

LifeStraw

LifeStraws purify water without the need for heat, electricity or additional tools. They effectively eliminate dirt particles and pathogens, thereby helping to prevent water-borne illnesses.

‘We are farming maize, beans, and vegetables. I fetch my water from the river. I received a LifeStraw one year ago. I use it every day.

My life is greatly different from before we had LifeStraw. Before I had LifeStraw, I had to buy firewood to boil my water. Here, we cannot gather firewood as there is none about, but you have to buy it. But now that I filter water, I don't boil it. I used to buy a

small tree for 500 Kenyan Shillings to cut into pieces, it would last two days. Now that I no longer buy firewood to boil, I can now buy 200 Kenyan Shillings of firewood and it lasts one week.

I have seen a difference in my health. If you compare the water before the LifeStraw and the water after, there is a great improvement in taste. When they brought the LifeStraw it was difficult for me, but when they came to re-educate, I learned and now it's easy.

I help my neighbours to use their LifeStraw, and encourage them to use it.’

“We are farming maize, beans and vegetables. I fetch my water from the river. I received a LifeStraw one year ago. I use it every day.”

Our carbon footprint

We have reported our greenhouse gas (GHG) emissions⁸ for over 17 years. We measure our direct GHG emissions in carbon dioxide equivalent (tCO₂e) using the latest UK Government guidance.⁹

Our direct GHG footprint encompasses energy consumption, refrigerant leakages from major occupancies and all business travel (air, rail and road). All greenhouse gas data and related commentary is externally assured.¹⁰

Energy

We source the majority of our electricity from renewable sources and in 2016, we continued to reduce our own energy use and encourage our suppliers to make reductions in their own operations.

Waste

We reused or recycled just over 64% of the total 794 tonnes of waste we produced during 2016.*

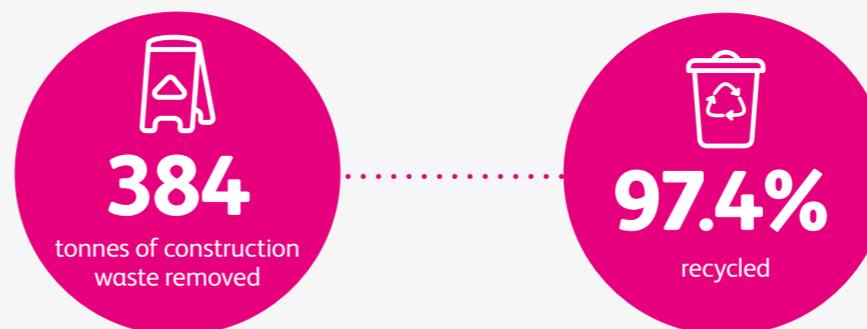
As we begin the relocation of our Manchester Head Office from the CIS Tower to our refurbished registered office in Balloon Street, we are focusing effort on the construction waste this creates.

Colleagues will have access to enhanced recycling facilities in branches which will be installed in 2017.

Total GHG emissions by source

We seek to minimise our own environmental impacts. We continued to source the vast majority of our electricity from renewables in 2016, and maintained our 'beyond carbon neutral' status for the eighth consecutive year, offsetting our operational greenhouse gas (GHG) emissions plus an extra 10% to address legacy issues.

Source of emissions	Total (tCO ₂ e)		
	2016	2015	2014
Fuel combustion	2,009	2,449	2,774
Electricity consumption ^{11, 12}	16,182	20,068	24,335
Refrigerant leakages ¹³	185	131	373
Business travel	1,183	995	1,121
Total	19,559	23,643	28,603
Carbon intensity (tCO₂e/FTE)¹⁴	4.41	4.19	4.87



As at the drafting of this report, 384 tonnes of construction waste have been removed from our Manchester Balloon St site with 97.4% of it being recycled.

*Due to the difficulties splitting waste data after the Bank left the Co-operative Group, the waste figure for 2015 was artificially high. The figure for 2016 brings our recycling percentage back in line with previous years.

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

9 Department for Environment, Food and Rural Affairs (DEFRA), Environmental Reporting Guidelines →: including mandatory greenhouse gas emissions reporting guidance, June 2013. 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 DNV GL has provided limited assurance of the GHG data and commentary as part of the Bank's Values and Ethics 2016 Report assurance. In that report the assurance statement sets out the scope of work and standards used to form their opinion.

11 If electricity from renewable sources is accounted as zero carbon then emissions from electricity would be 162 tCO₂e.

12 GHG emissions are calculated using the most up to date conversion factors published by DEFRA.

13 Refrigerant gas data includes major occupancy properties only.

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

Water and natural resources

We continually seek to reduce our water usage and the amount of natural resources we consume.



Since 2011, we have reduced total water consumption in the buildings we occupy by almost 50%, down from nearly 175,000 m³ to 90,555 m³.



We use timber that is Forest Stewardship Council (FSC) certified, or high recycled content MDF, during our branch refurbishment programme. While we did not carry out any refurbishments in 2016, we expect to refurbish several branches in 2017.



In 2016, our office paper usage fell by 26.3% year-on-year. We also put in place additional measuring systems to track our usage. For the paper we use, our policy requires that it contains a high proportion of recycled content, comes from certified sources, and is manufactured using reduced chlorine processes.¹⁵



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Chemicals

In 2007 we were the first bank to issue customers with PVC-free credit and debit cards. In its place we use the plastic glycol-modified polyethylene terephthalate (PETG), which does not contain or use chlorine in its production. In 2016, we issued more than one million PVC-free cards, with nearly three million cards in circulation. Most other cards in circulation are made of PVC.

In addition, all the inks we used in our customer mailings were chlorine-free, and either water or vegetable based instead.

Accommodation

Throughout 2016, we encouraged our colleagues to engage more in remote working, and to stay away from home less. As a result, we used 25.6% fewer hotel rooms in 2016 than the previous year. This meant less time away from home for colleagues and a reduction in their environmental impact.

¹⁵ In 2016 we used 10,429 units of paper against 14,155 in 2015

Governance of values and ethics

Since 2013, our Ethical Policy has been at the heart of the Bank’s constitution through incorporation in our Articles of Association. Our expanded Ethical Policy provides the framework for our progress and since 2014 we have delivered enhanced governance and accountability.

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The Values and Ethics Committee¹⁶

Oversight and accountability for values and ethics is governed through the Values and Ethics Committee. This is a committee of the Board, chaired by an independent Non-executive director, Laura Carstensen, who was appointed to the Board in May 2014. The Committee also includes further Non-executive directors and the CEO. It is attended by the Human Resources Director, the Director of Products and Communications and other senior executives of the Bank.

The Committee met four times during 2016. Its remit is to provide oversight and scrutiny of the way the business delivers against the five pillars of the Ethical Policy.

Further information on the role, remit and work of the Committee can also be found in our Annual Report and Accounts 2016 (page 81) and in our [Articles of Association](#). →

It is the responsibility of all colleagues to ensure that the Bank delivers its Ethical Policy, and strategic direction and delivery is led by a dedicated team of colleagues within the remit of the Director of Products and Communications.

The work of the Committee

In 2016, the Values and Ethics Committee considered:

- Complaints resolution and the level of improvement in customer satisfaction. It received regular updates from the Customer Service and Insight teams
- Key aspects of the Bank’s vulnerable customers work – for example the success of the Citizens Advice Manchester partnership
- The embedding of our values and ethics framework. Particular focus was placed on incorporating values and ethics in performance management, our new colleague induction programme, and in e-learning modules
- Our commitment to an ethical workplace, including monitoring our commitment to the Living Wage
- The development of a values and ethics measurement system to track our performance against values and ethics related metrics
- Our Ethical Policy to ensure it remained current and appropriate
- Progress against the commitment to the three year partnership with Co-operatives UK – The Hive (see page 19).

Reporting and assurance

Our approach to values and ethics is guided by the principles of materiality, inclusivity and responsiveness as set out in the AA1000 Accountability Principles Standard (2008).¹⁷

We have appointed DNV GL to independently assure this Report to enhance stakeholders’ confidence in the disclosures made. DNV GL’s approach to assurance was based on recognised

standards, including the Global Reporting Initiative (GRI) and the International Standard on Assurance Engagements 3000 (ISAE 3000). Their assurance statement can be found on page 50.

DNV GL were used for our first and second values and ethics reports and have provided assurance for the Bank’s reporting for many years whilst the Bank was part of the Co-operative Group.

¹⁶ Terms of reference for board committees →

¹⁷ AA1000 AccountAbility Standards →

Ethical workplace and culture

Pillar 4

Our approach to values and ethics extends to how we treat our colleagues and those acting on our behalf. Our aim is to create an ethical workplace for our colleagues that embeds our values in everything they do.

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Refreshing our workplace values

In 2014 we launched the first phase of our Cultural Transformation Programme, refreshing our workplace values and colleague behaviours. In 2016 we completed the transformation programme, with over 1,000 of our colleagues attending sessions on our cultural values and colleague engagement.

Following our 2016 colleague survey, our senior leadership team agreed that we need to become a more leader-led organisation, driving culture and engagement from the top down.

In 2017 our aim is to support our leaders and managers to drive engagement in their teams with our values. We will continue delivering leadership programmes including “emerging leaders”, “new to leadership” courses, mentoring schemes, and coaching programmes.

Guided by our Ethical Policy, we take a two-fold approach: embedding our values and ethics in our workplace culture through the way we treat and reward colleagues; and embedding them through the way our colleagues treat our customers.

Banking Standards Board

As part of our aim to build an ethical workplace, we participated in the inaugural Banking Standards Board (BSB) annual assessment survey, which aims to help banks embed high standards of culture. The BSB is a private organisation open to any bank or building society that wishes to join. Further information about our membership fees can be found on page 29.

Although the full findings of the BSB’s assessment of the Bank are confidential, their survey of colleagues found that:

- We had the highest colleague participation rate amongst all of the member banks and building societies, 59% versus a BSB benchmark of 34%.
- 88% colleagues said they saw other colleagues going ‘the extra mile’ to meet the needs of customers.
- 85% agreed the purpose and values of the bank were meaningful to them.

Code of Conduct

Our Code of Conduct sets out how we expect all of our colleagues to conduct themselves when working with other employees of the Bank, contractors, or stakeholders. The Code helps ensure we meet our legal and regulatory obligations, as well as our Ethical Policy commitments. There is also a separate Code for contractors and agency workers employed by the Bank.

Each year, everyone employed by the Bank is required to complete a Code of Conduct e-learning module and to commit to upholding it every day. In 2016, we updated the e-learning module to include a renewed focus on our guiding values and ethics and raise awareness of our social media policies.

Employee engagement and values index

In October 2016, we carried out our yearly “Speak Up” survey, to understand how our colleagues were feeling about their workplace and also how well we are embedding our workplace values in how we work, act and make decisions.

- The survey was completed by 3,343 of our colleagues (79% response rate). Our overall colleague engagement stands at 64%, which is only 3 points below external benchmarking.
- The survey demonstrated the progress we are making; our employee experience and work environment overall score was 72%, up 6 points on a similar survey carried out in May 2016.
- Our Values Index for 2016 was 79%, reflecting our focus on reducing our risk, providing more development for our colleagues, and more consistent leader communications on bank-wide plans and strategies.



Whistleblowing

We are 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 behaviours, dishonesty, or breaches of internal policy.

We maintain a Concern at Work service through which all colleagues can report concerns by telephone, text or 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.

In 2016, the service received 42 reported concerns, up from 27 received in the previous year.

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Rewarding people fairly

We seek to recognise and reward our colleagues in a way that is ethical, represents best practice, and makes the Bank stronger by supporting our business strategy.

Our remuneration policies and practices comply with the PRA and FCA Remuneration Code and the best practice principles of the UK Corporate Governance Code. They also include measures to prevent potential conflicts of interest between customers, colleagues and shareholders, in the way incentive arrangements are designed. The Bank has not operated any sales incentive schemes since October 2012.

We are also 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. We also publish the pay ranges on our intranet for the majority of roles across the Bank.

“Since April 2015, all Bank colleagues have been paid the Living Wage, as a minimum¹”

The Living Wage

Our customers and colleagues have told us that supporting initiatives like the Living Wage is one of the key ways we can show support for economic and social development in the UK.

We are an accredited Living Wage employer, ensuring that our colleagues are paid a fair wage that reflects the cost of living, as calculated by the independent Living Wage Foundation. We also encourage our suppliers to help tackle low pay among their workers through the Living Wage as part of our updated Sustainable Procurement and Supplier Policy.

In October 2016, the Living Wage was increased by 2.4%, which meant that 162 colleagues saw their pay rise to this new Foundation Living Wage, as a minimum, during the 2017 Annual Salary Review process.



Salary and reward

From 2017, none of our colleagues will be paid less than £15,300 pro rata on a per annum basis. For colleagues in the roles below our senior levels we made an annual allowance payment in December 2016 to recognise their contribution throughout the year.

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 Annual Report and Accounts 2016.² In 2016 the long-term incentive plan for executives included measures related to the ratio of male: female in executive roles and to colleague engagement.

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¹ Living Wage Website →

² Page 88, Annual Report 2016 →

Gender pay gap

In 2016, in preparation for the gender pay gap reporting requirements, the Bank started to report internally using the draft criteria for gender pay gap reporting which was at the time the subject of Government consultation. Whilst the results overall were encouraging, we recognised from those preliminary results that the number of men versus women in senior roles in the Bank was likely to affect the result of the gender pay audit held against the finalised criteria in April 2017.

The Bank was already aware of the need to try and address the ratio of women in senior roles and therefore became signatories to the Women in Finance Charter in October (see page 41). The Bank has committed to the diversity target for senior staff roles envisaged by the Charter which will help ensure that talent rises to the top in the finance sector regardless of gender. The Board considers diversity, of which gender diversity is one element, to be an important part of the search mandates for new appointments to the Board and all other senior roles.

We are committed to reporting on the full results of the April gender pay gap audit in line with the requirements and aim to publish preliminary results in Q4 2017, as well as part of our 2017 Values and Ethics Report.

Everyday Heroes

Since 2015, there have been:



Recognition

Whenever one of our colleagues does something amazing, demonstrates our values and ethics in action, or makes a contribution to achieving our business strategy, we encourage colleagues to recognise their peers through our colleague recognition scheme, “Everyday Heroes”.

In May 2016 we held our first Annual Awards Event where an award was presented for each of our four workplace values, an award was made for customer service, and a CEO nominated award.

Flexible Working

In 2017 we will begin to refresh our flexible working policies and toolkits and re-launch colleague advocacy of flexible working across the Bank. This includes sharing case studies from colleagues to showcase the benefits of flexible working to both our colleagues and the Bank. This advocacy also links in to our wider engagement, retention and attraction work and is aligned to our commitments under the HMT Women in Finance Charter signed in 2016.



Employee numbers

During 2016, as part of our plans to resize and simplify the Bank, we made the difficult decision to reduce the number of people working for us. Throughout this time, we ensured that colleagues were treated with dignity, respect and fairness and that, where possible, any reduction in roles occurred through natural attrition.

The average number of people working for the Bank during 2016 was 4,748 (2015: 5,643; 2014: 6,367).

2016: **4,748 employees**



2015: **5,643 employees**



2014: **6,367 employees**



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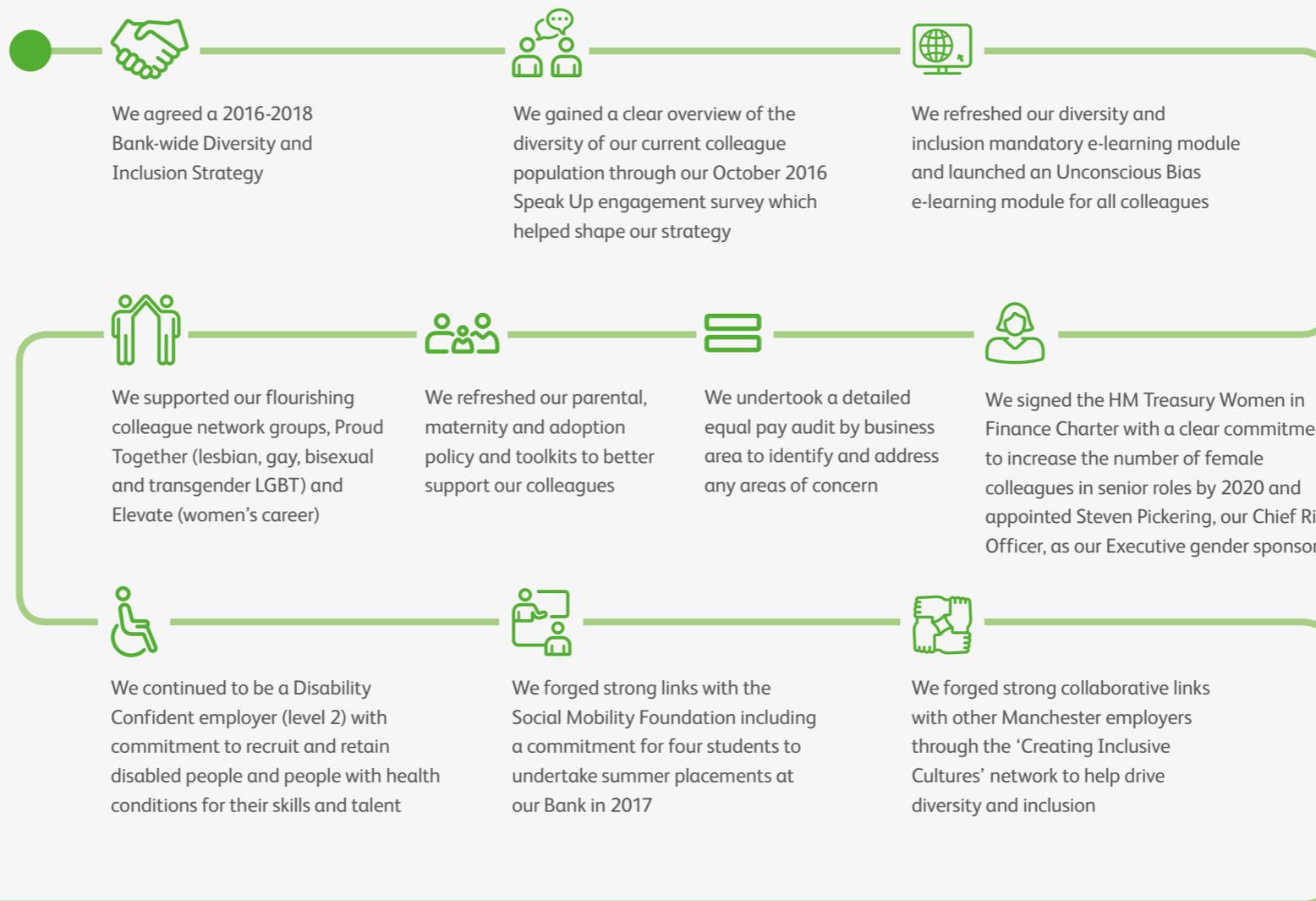
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Diversity and inclusion

Our aim is to create a diverse and inclusive culture where all colleagues can fulfil their potential. We seek an environment which engages the talents, beliefs, backgrounds, capabilities and ways of working of our unique individuals, creating a culture of belonging in which people are valued and respected.

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Our 2016 diversity and inclusion milestones



Promoting an inclusive workplace

Our aim to create a culture of belonging, value and respect is guided by our Diversity and Inclusion Policy, our membership of advisory bodies such as Inclusive Employers and Stonewall, and our enthusiastic colleague diversity networks. In 2016 we made significant progress, reaching a number of key milestones.

In 2017, we will continue to focus on increasing the diversity of our workforce and embedding an inclusive culture across the Bank.

Diversity demographic data

So that we can understand and encourage colleague diversity, in 2016 we improved how we capture data on our human resources systems and launched a programme to encourage colleagues, where they feel comfortable to do so, to update their personal information. We also improved how we capture diversity data in our annual Speak Up colleague engagement survey.³

90% of colleagues don't describe themselves as having a disability

86% of colleagues ethnically identify themselves as White

90% of colleagues nationally identify themselves as British/English

87% of colleagues describe themselves as heterosexual

43% of colleagues being of Christian faith

41% of colleagues having no faith

48% of colleagues have no caring responsibilities

34% of colleagues have caring responsibilities for a child / children under the age of 17



Gender diversity

In 2016 we saw an increase in the number of women on our Executive Committee (33%, up from 22% in 2015). The number of women on the Board remained the same (17%).

2016	Female		Male		Total
	#	%	#	%	#
Board	2	17%	10	83%	12
Exec	3	33%	6	67%	9
E3 and above	89	33%	181	67%	270
E2 and below	2428	61%	1547	39%	3975
Total	2522	59%	1744	41%	4266

2015	Female		Male		Total
	#	%	#	%	#
Board	2	18%	9	82%	11
Exec	2	22%	7	78%	9
E3 and above	101	32%	219	68%	320
E2 and below	2983	63%	1773	37%	4756
Total	3088	61%	2008	39%	5096

Women in finance

We have committed to having 40% females in our senior management roles by 2020 under our HMT Women in Finance Charter commitments.

2016 baseline	2020 target
32% (set in August)	40%

Proportion of employees in each age

Age Band	2016
<24 yrs	12%
25-34 yrs	32%
35-49 yrs	36%
50-64 yrs	19%
65+ yrs	1%

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³ This is the first year the standalone bank has recorded this level of demographic data. For this reason, there is no comparative data for previous years.

Training and development

Supporting our colleagues through training and development is vital to ensuring that we embed our values and ethics in everything we do, ensuring they do the right thing every time.

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Training our colleagues

In 2016 each colleague and contractor was required to complete 11 Mandatory Core Knowledge Training (MTs) modules; multiple choice assessments on essential areas such as fraud prevention and data protection, designed by subject matter experts. In 2016, our colleagues completed 26,478 mandatory modules and 37,167 optional modules.

Our colleagues can also access an online learning portal in conjunction with Ashridge Business School. The courses on the portal help them develop their skills in areas such as leadership, personal effectiveness and strategy. In 2016, we recorded over 2,000 hits on Ashridge, providing over 3,000 hours of online learning.

We also offer a range of business-specific and leadership development training and in 2016 we delivered more than 9,076 delegate days of training to 4,468 delegates.

Apprenticeships

In 2016 we reviewed our apprenticeships and introduced a new pilot programme for our customer-facing roles, ensuring new and existing colleagues have the opportunity to train and develop. Following this successful pilot, the programme will soon be launched bank-wide. Our aim is that every area of the Bank will have an apprenticeship programme by the end of 2018.



Jacob Hennessy

Twenty year old Jacob joined our apprenticeship scheme from the Army, having left following an injury. After a few months of recovery he started looking and, after searching through several opportunities, he accepted a place on our apprenticeship scheme for customer services and financing at our Skelmersdale contact centre.

“The amount I’ve learnt, the knowledge that I have gained from going from one sector of work to a completely unfamiliar work setting has been a shock to my system, but in a good way.

There are plenty of different departments to choose from if I decide to move onto something new and try something different, a lot of jobs and careers don’t offer that kind of flexibility. So it is a unique job. I hope to progress to the absolute highest I could possibly achieve within the Bank.”



Building links with local schools

To ensure a diversity of applicants we have built relationships with local schools and colleges, in particular under-privileged schools.

We have also partnered with a charity called Leadership through Sport and Business (LSB), which supports apprentices from diverse backgrounds to start a career in finance.

Apprentices undergo a four month pre-employment programme before being placed within organisations to continue their study. So far, we have taken two apprentices from LSB in to our Finance department.



Raisa and Anisa Ahmed
Leadership through Sport and Business Apprentices

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Graduates

We have 9 Graduate Programmes, with a total of 36 graduates, working in departments throughout the Bank. Our 2016 intake of 14 new graduates started their first placements in October, and are expected to complete

their programme in September 2019.

We are working with the Social Mobility Forum to review our graduate recruitment process and have already taken the decision to remove the UCAS point minimum requirement with a view to increasing our inclusivity.



Graduate volunteering

Our current graduates are committed to supporting our local communities. In September 2016 they spent the day at Moston Fairway, North Manchester, working in partnership with the Lancashire Wildlife Trust. The day involved reclaiming an area of marshland which is a vital habitat for many species of insects and a primary food source for bats. As well as a great opportunity to work as a team, the graduates really enjoyed the opportunity to give something back to the community.

Supporting communities

An ethical workplace means giving back to the communities in which our colleagues live and work through fundraising and volunteering.



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Colleague volunteering

Volunteering is a vital part of our community investment, giving colleagues a genuine way to get involved in projects that make a real impact within their communities. Every colleague is given the opportunity to use up to two paid working days a year to volunteer and help good causes.

Our volunteering programme includes team activity days and individual opportunities for colleagues to utilise the business and interpersonal skills they use at work every day. Volunteering activities support community organisations addressing a wide range of issues including social welfare, education, health, and the environment.

Many of our colleagues are already active volunteers and we're happy to support the valuable contribution they make to their communities by allowing them to use their volunteering hours for any work they do with their group or organisation.

Measuring the impact of volunteering is complex; for example a team activity to improve paths and access at a nature reserve will have a relatively low impact for hundreds of people, whereas a colleague who visits a school every week to work with children on their numeracy skills will only benefit a small number of students, but the impact could potentially be life changing.

During 2016, 559 colleagues volunteered in their local communities, which included 43 team activities (in 2015 colleagues donated 4,352 hours).⁴



Fit4Finance and Number Partners

Our colleagues use their knowledge and experience to support our local communities and as a bank, this naturally includes maths and finance skills. Our colleagues in Manchester can participate in our **Fit4Finance** programme, delivering a one-day session to secondary school children designed to improve their knowledge of the day to day financial services, like credit cards and current accounts.

We also work with primary school children through our **Number Partners** programme. Our colleagues deliver weekly sessions to small groups of pupils, enabling them to gradually build their confidence with numbers through engaging games and activities. Andrew Stavordale, an IT Project Manager, has been volunteering at a central Manchester primary school for nearly four years.

“I’ve been working with two Year 4 pupils this year and it’s been great to get to know them and see their confidence with numbers grow. I’ll be working with some new students after the summer as my current pair have progressed so much their teachers are happy to sign them off from the scheme. I feel really proud to have made such a big difference for them and hope they’ll go on to have much more confidence with maths in the future.”

Andrew Stavordale | IT Project Manager

⁴ Data supplied by Volunteering Matters in 2015. Bank volunteering is now managed in-house

Fundraising

Our colleagues are enthusiastic fundraisers, supporting many local and national charities through self-arranged and Bank-supported activities. These efforts resulted in donations of over £100,000 to the charities that meant the most to our colleagues during 2016, £26,750 of which was raised during December as part of the Festive Fundraiser initiative.

The Festive Fundraiser is our annual colleague charity challenge, giving teams an incentive to work together for good causes and have some fun in the run up to Christmas. Every team that raised £400 or more during December was rewarded with an extra donation to their charity from the Bank, resulting in an additional £25,400 going to good causes in 2016.

Fundraising for Wood Street Mission

At the end of the Festive Fundraiser, the team that has demonstrated the most outstanding effort in supporting their charity is named Festive Fundraiser Winning Team. This year our winning team was made up of colleagues from Risk. This team, which works across several office locations, collected over £1,000 worth of presents for children affected by poverty, which were then distributed by the Wood Street Mission in Manchester. The charity has worked to support poor and disadvantaged people in Manchester since 1869, just a few years after the Co-operative Wholesale Society was founded in 1863.



“Toys are important for children’s wellbeing and development. The families we help can’t afford to buy toys for their children, particularly at Christmas, which is a difficult and stressful time of year for families who are struggling day to day. This donation will mean we can provide toys for parents to give to their children on Christmas Day, just like any other parent. This really will make a positive difference to the lives of hundreds of local children.”

Roseanne Sweeney | Chief Executive, Wood Street Mission

Ready for Work Job Club

Ready to Work is a national programme run by Business in the Community that helps some of society’s most disadvantaged people to enter employment, with involvement from local businesses every step of the way. Many of the people they work with have experienced homelessness or the risk of eviction. Criminal convictions and a lack of qualifications often stand in their way, while others have been in care or are overcoming long-term unemployment.

Volunteers from our Manchester Head Office share their skills as part of the weekly Job Club at the Booth Centre, helping beneficiaries with their CVs and interview preparation, and assisting them in looking for work, as well as acting as role models and advisers to give programme participants the boost of meeting people from a professional work environment.



“I take a lot of skills and opportunities for granted when applying for jobs and I felt I gave the individual I supported lots of help and advice from my own experiences. Taking part in the job club is a great example of how we can use the skills and experience we’ve gained from our day jobs to make a practical difference to people in the local community.”

Paul Male | Head of Sourcing and SRM

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Manchester: Supporting our local community

With our head office based in Manchester city centre, and one of our largest customer contact centres in nearby Stockport, we are always looking to support important causes close to home.

With 42 per cent of our colleagues based in Manchester, it's important that we get involved in making the city a more diverse, exciting, and fairer place to live. We do this through getting our colleagues involved, providing sponsorship or making donations to important causes.

Manchester Pride and Proud Together

In 2016 we supported Manchester Pride's Big Weekend. Our Proud Together employee network led a team of fourteen colleague volunteers representing the Bank during the Saturday parade, handing out more than 5,000 Co-operative Bank branded flags, badges and thundersticks, demonstrating our continuing commitment to ensuring a diverse and inclusive workplace. We also raised awareness of the Big Weekend amongst our colleagues and customers and encouraged them to take part, flying the rainbow flag at our Manchester Head Office and Stockport office, using our internal communication channels and handing out information in our reception areas.



“I enjoyed everyone’s company and was amazed at how many people supported us in the crowd, and everyone loved the flags and badges! I would definitely get involved again.”

Farah Khan | Financial Support Associate and volunteer



Manchester Great CityGames

We were the headline sponsors of the 2016 Manchester Great CityGames, which took place in Manchester city centre and was free to attend, providing everyone a chance to see world class athletes up close before they set off for the Rio Olympics. The games included Olympic gold medallist long jumper, Greg Rutherford (GB), European indoor 60m champion, Richard Kilty (GB), and European 100m and 200m champion, Dafne Schippers (Netherlands). The event was organised by the Great Run Company, which we worked closely with to ensure a fantastic day for the city.

“We’re delighted to have The Co-operative Bank on board for this incredible event.

The people of Manchester have always embraced the Great CityGames concept so it’s fantastic to be working with a local organisation as we continue to create fun, free and accessible opportunities to cheer on our athletes.”

Nicky Homes | Commercial Director of the Great Run Company

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Supporting Centrepont in 2017

In 2017, to mark the 25th Anniversary of our Ethical Policy, we will be partnering with Centrepont, a charity that helps homeless 16-25 year olds into a home and job by providing safe accommodation, access to learning, and support with physical and mental health issues.

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We will support the charity during an important phase of their development – the opening of their new hub to enable their expansion into Greater Manchester where youth homelessness is such a critical issue.

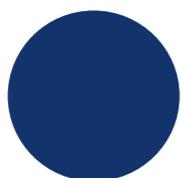
We will:

- Partner with Centrepont to help homeless young people through our mortgage products. For every customer who takes out a new Co-operative Bank or Platform mortgage, we will contribute to Centrepont’s new national helpline, and their new support hub in Manchester.
- Donate £25,000 to fund a Volunteering Co-ordinator who will play a vital role in helping Centrepont establish a volunteering programme across Greater Manchester in which colleagues can participate, as well as the wider community.
- Develop a support programme in partnership with our colleagues, which will be funded from the money we raise. We will be challenging all of our colleagues to get involved in fundraising.



Ethical Campaigning

Pillar 5



Just like the co-op movement, the Co-operative Bank has always campaigned for important causes. Guided by our customers and our co-operative values, we seek to use our influence and resources to improve society for everyone.

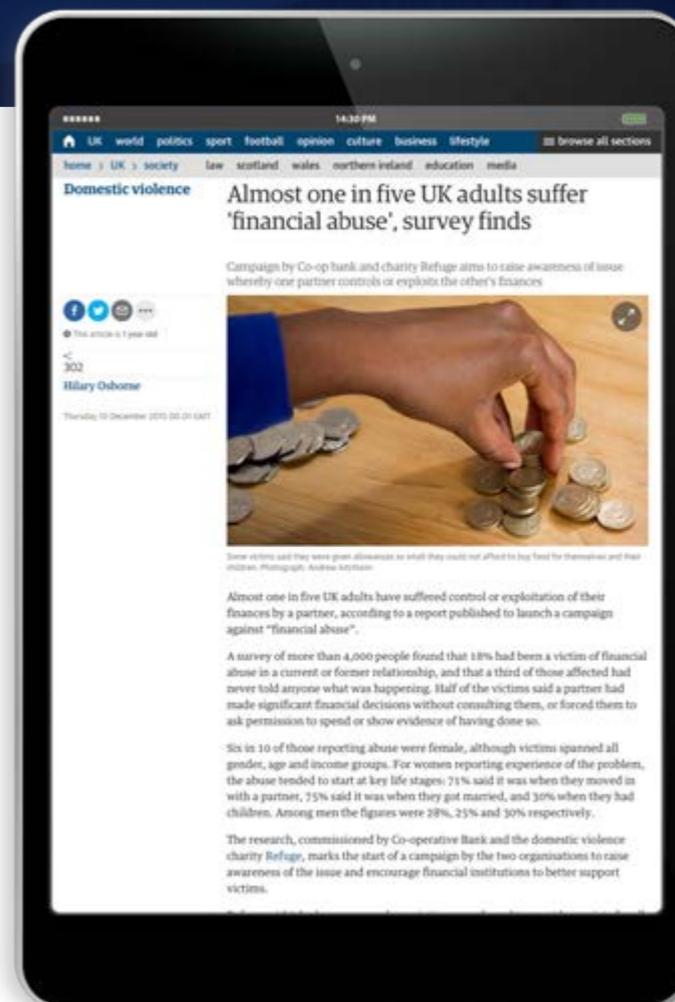
My money, my life

In December 2015 we launched our My money, my life campaign in partnership with the UK domestic violence charity Refuge, to raise awareness of, and improve the way banks respond to financial abuse in intimate partner relationships.

Our campaign research, the largest undertaken on this topic, showed that 1 in 5 UK adults has experienced financial abuse in a relationship.

The campaign has delivered on its key aims, including the planned introduction of an industry Code of Practice in 2017 to improve how banks approach this sensitive issue.

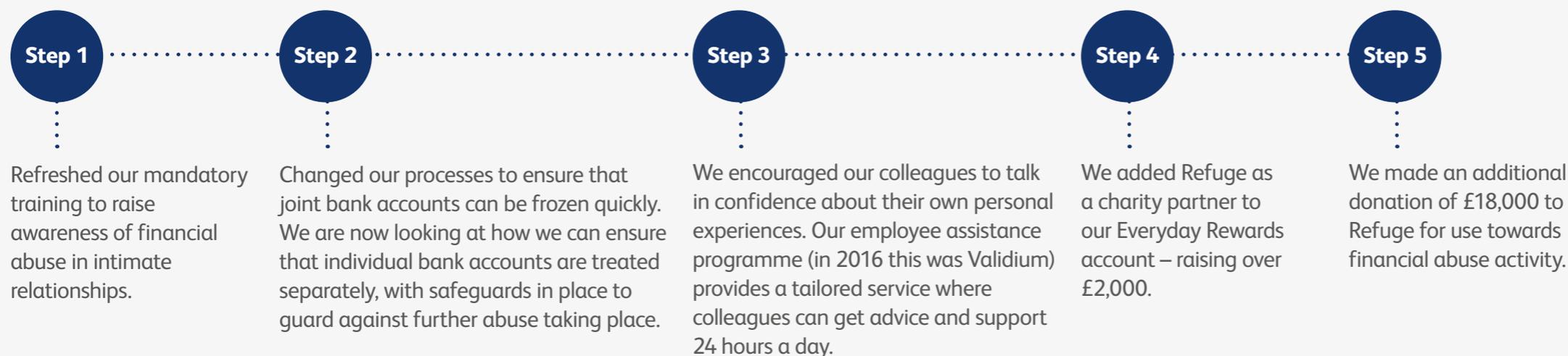
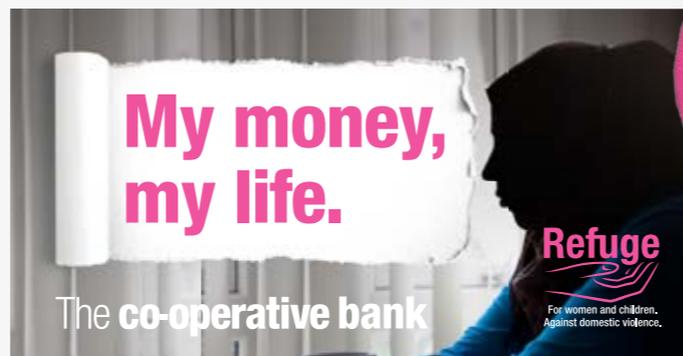
This is designed to give victims reassurance that they can approach their bank in confidence and explain what they are experiencing, and receive a sensitive, consistent response. Banks will be able to refer customers to the relevant specialist support services available for victims.



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Taking action to combat financial abuse



Industry and stakeholder engagement



Awards

Refuge and The Co-operative Bank have been awarded Best CSR campaign at the Northern Marketing Awards and Best CSR programme at the CorpComms awards.



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Independent assurance statement

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Scope and approach

The Co-operative Bank p.l.c. (the “Bank”) commissioned DNV GL Business Assurance Services UK Limited (“DNV GL”) to undertake independent assurance of the Values and Ethics Report 2016 (the “Report”) for the year ended 31st December 2016.

We performed our work using DNV GL’s assurance methodology VeriSustain™, which is based on our professional experience, international assurance best practice including the 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 evaluated the performance data using the reliability principle together with the Bank’s data protocols 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
- Community investment
- Colleagues’ volunteering
- GHG emissions

We understand that the reported financial data and information are based on data from the Bank’s Annual Report and Accounts (ARA) 2016, which are subject to a separate audit process by Ernst & Young LLP. The review of financial data taken from the ARA 2016 is not within the scope of our work.

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 ‘limited level’ of assurance. A ‘reasonable level’ of assurance would have required additional work at head office and site level to gain further evidence to support the basis of our assurance opinion.

Responsibilities of the Directors of the Bank and of the assurance providers

The Directors of the Bank 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 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 third year that we have provided assurance. DNV GL’s assurance engagements are based on the assumption that the data and information provided by the Bank 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.

Independence

DNV GL’s established policies and procedures are designed to ensure that DNV GL, its personnel and, where applicable, others are subject to independence requirements (including personnel of other entities of DNV GL) and maintain independence where required by relevant ethical requirements. This engagement work was carried out by an independent team of sustainability assurance professionals.

Basis of our opinion

A multi-disciplinary team of sustainability and assurance specialists performed work at the Bank's London

office and branch level. We undertook the following activities:

- Review of current sustainability issues that could affect the Bank and are of interest to stakeholders;
- Review of the Bank's approach to stakeholder engagement and recent outputs from customers and colleagues;
- 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 management of sustainability issues and review of selected evidence to support issues discussed;
- Site visits to the Bank's office in London to review processes and systems for preparing site level sustainability performance data and implementation of sustainability strategy;
- Site visit to Westbury-On-Trym branch in Bristol to observe the processes and systems for embedding the Ethical Policy into daily operations, including how employee performance is measured against its requirements;
- Review of supporting evidence for selected 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; and
- Review of the processes for gathering and consolidating the specified performance data and, for a sample, checking the data consolidation. Where data had been checked by another third party or submitted to regulatory authorities, we tested transposition from these sources to the Report. This included reportable customer complaints.

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 Principles. In terms of reliability of the performance data, nothing came to our attention to suggest that these datasets have not been properly collated from information reported at operational level, nor that the assumptions used were inappropriate.

Observations

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

Stakeholder inclusiveness

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

The Report continued to discuss the issues that were material and relevant to the financial products offered by the Bank. We noted an improvement on the disclosure of gender pay gap and the closures of accounts based on the Bank's risk appetite. We understand the Bank plans to review the Ethical Policy in 2017, which will help to validate whether material sustainability issues identified through the Ethical Policy consultation in 2014 remain relevant to customers and key stakeholders.

We also restate our recommendation to disclose how material sustainability issues have been agreed and prioritised by the business, including a clear indication of where the issues are being disclosed (e.g. V&E Report and/or ARA).

Materiality

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

While we continued to note strong engagement with customers, colleagues, regulators and Co-operatives, the Bank's overall stakeholder engagement process remained informal and reactive. We restate our recommendation from prior years that the business should consider actions to formalise the stakeholder engagement processes in order to maintain an understanding of evolving stakeholder expectations.

We noted, however, that the Bank communicated promptly with customers and colleagues during the year regarding the business's challenges. This included updates on branch closures, closure of accounts and further reduction of head count.

Responsiveness

The extent to which an organisation responds to stakeholder issues.

We continued to note that the Bank's Ethical Policy was a key instrument that set expectations for employee behaviour and helped the development of customer-led products. For example, a key milestone was reached by creating the Bank's Customer Standards which were designed to guide the development of new products and services.

Compared to previous years, progress was made in 2016 to develop measurable targets in line with the Ethical Policy commitments and stakeholder expectations by agreeing specific and clear colleague diversity targets. In addition, the business created an internal V&E scorecard, presented on a quarterly basis to the Board and the V&E Committee. We look forward to reviewing its full implementation in 2017, including the targets developed to measure the Bank's V&E performance.

We restate our prior recommendation to increase the Bank reporting to stakeholders on the challenges and issues faced, such as redundancies and remuneration, and upon plans to address them.

During our branch visit the employees interviewed raised the lack of recycling facilities and environmental initiatives at branch network level, and how they considered it inconsistent with the Ethical Policy. We welcome the Bank's plans to enhance the recycling facilities in branches in 2017.

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Completeness

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

The Report continued to communicate a good overview of performance across the business. We welcome the Bank’s intention to refresh the approach to flexible working and encourage coverage of this and work-life balance to be included in next year’s Report.

We acknowledge an improvement of how the Bank incorporated the protection of human rights into its product development, which was driven by the newly developed Customer Standards. These standards were created to further embed the Ethical Policy within the business. They were used for the creation and development of products, propositions and services with values and ethics at the core of every development.

Neutrality

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

While we recognised that the Bank reported on relevant areas of performance, we reiterate our recommendation that the challenges faced during the past year should be discussed in greater detail. For example, whilst the customer and employee satisfaction results were commendable in a challenging year for the Bank, the section in the Report that discusses this in detail appeared overly positive and would benefit from greater balance. We recommend including what were the most significant ‘negative’ results or decreases (or results that most concerned management).

Moreover, we raised to management that the Report’s foreword had a more positive tone and content than the Chairman’s Statement and Chief Executive’s Review in the 2016 ARA – specifically in regarding the challenges of building capital organically in the medium term and their resulting impact (e.g. the Bank’s Board deciding to commence a sales process and consider other options to build capital). This made the Report appear to be less balanced as a result. While we recognised the importance of both documents, which can be read together, we recommend that the foreword of future Reports should have a similar tone to the ARA.

Reliability

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

The Bank continued to demonstrate reliable processes 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 the publication of the Report.

However, we restate our recommendation to develop internal guidance to ensure future reporting follows a consistent approach for disclosure of V&E information, in particular greenhouse gas emissions and community investment – which will reduce the risk of the non-material errors we found arising again, and to ensure consistency of processes should there be personnel change for data collection. The Bank should also develop these reporting criteria for key performance metrics monitored through the recently developed V&E scorecard.

In addition, we noted that fundraising activities by employees at branch level were not monitored or reported centrally and there was no guidance for branches on processes to pay the cash raised to the charities. While these donations would be considered as leverage (i.e. not a direct Bank donation), we recommend improving the branch level community investment guidance, processes and recording of the cash raised by the Bank’s employees.

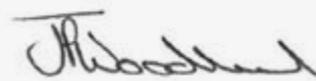
For and on behalf of DNV GL Business Assurance Services UK Limited London, UK

26 June 2017



Kate Brintjes

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Regional Assessment Services Manager and Reviewer
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dnvgl.co.uk/BetterAssurance



Find out more and get involved

Our values and ethics:

co-operativebank.co.uk/aboutus/ourbusiness/ethicalpolicy

Our Annual Report and Accounts:

co-operativebank.co.uk/investorrelations

Our products and services:

co-operativebank.co.uk/

Careers at the Bank:

co-operativebankjobs.co.uk/

Our Refuge campaign:

co-operativebank.co.uk/aboutus/ourbusiness/ethicalpolicy/ethicalcampaigns/FinancialAbuse

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The **co-operative** bank
It's good to be different