

## SECOND PARTY OPINION (SPO)

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Sustainability Quality of the issuer and the Green, Social and Sustainability Financing Framework

The Co-operative Bank Plc  
22 February 2022

### VERIFICATION PARAMETERS

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Type(s) of instruments contemplated	<ul style="list-style-type: none"><li>Green, Social and Sustainable Debt Instruments</li></ul>
Relevant standards	<ul style="list-style-type: none"><li>Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG), as administered by the International Capital Market Association (ICMA) (as of June 2021)</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>The Co-operative Bank Green, Social and Sustainability Financing Framework (as of February 8, 2022)</li><li>The Co-operative Bank Eligibility Criteria (as of February 8, 2022)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>Pre-issuance verification</li></ul>
Validity	<ul style="list-style-type: none"><li>As long as there is no material change to the framework</li></ul>

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## SCOPE OF WORK

The Co-operative Bank Plc (“the company or “the issuer”) commissioned ISS ESG to assist with its Green, Social and Sustainable Debt Instruments by assessing three core elements to determine the sustainability quality of the instruments:

1. Green, Social and Sustainable Debt Instruments link to The Co-operative Bank’s sustainability strategy – drawing on Co-operative Bank’s overall sustainability profile and issuance-specific Use of Proceeds categories.
2. The Co-operative Bank’s Green, Social and Sustainability Financing Framework – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBP), Social Bond Principles (SBP), and Sustainability Bond Guidelines (SBG).
3. The Eligibility Criteria – whether the projects contribute positively to the UN SDGs and perform against ISS ESG’s issue-specific key performance indicators (KPIs) (See Annex 2).

## THE CO-OPERATIVE BANK

The Co-operative Bank was established in 1872 as the Loans and Deposits department of The Co-operative Wholesale Society in order to provide banking services for the co-operative movement. The Co-operative Bank implemented its ethical policy<sup>1</sup> in 1992, governing the way it does business ever since. The ethical policy was incorporated into The Co-operative Bank’s Articles of Association in 2013.

The Co-operative Bank offers products to both retail and business banking customers, which together form their core customer segments. For their retail customers, they offer high street, telephony and online services, including current accounts, savings, mortgages, personal loans and credit cards; for their SME customers, which include small and medium-sized businesses, co-operatives, charities and social enterprises, they offer banking services such as current accounts, savings, loans, overdrafts and credit cards.

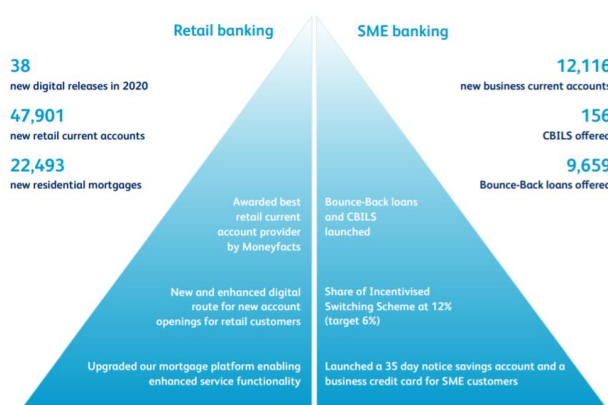


Figure 1 Progress in strategy to enable the future<sup>2</sup>

<sup>1</sup> [The Co-operative Bank Ethical Policy](#)

<sup>2</sup> [The Co-operative Bank - Annual Report and Accounts 2020](#)

## ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION <sup>3</sup>
<p><b>Part 1:</b></p> <p><b>Green, Social and Sustainability Debt Instruments link to the Company's sustainability strategy</b></p>	<p>According to the ISS ESG Corporate Rating published on February 12, 2022, the company shows a high sustainability performance against the industry peer group on key ESG issues faced by the Public &amp; Regional Banks industry. The issuer ranks 37<sup>th</sup> out of 272 financial institutions within its industry.</p> <p>ISS ESG finds that the Use of Proceeds financed through these bonds are consistent with The Co-operative Bank's sustainability strategy and material ESG topics for the Public &amp; Regional Banks industry. The rationale for issuing Green, Social and Sustainable Debt Instruments is clearly described by the company.</p>	<p><b>Consistent with the company's sustainability strategy</b></p>
<p><b>Part 2:</b></p> <p><b>Alignment with GBP, SBP, and SBG</b></p>	<p>The company has defined a formal concept for its Green, Social and Sustainable Debt Instruments regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is aligned with ICMA's GBP, SBP and SBG.</p>	<p><b>Aligned</b></p>
<p><b>Part 3:</b></p> <p><b>Sustainability quality of the eligibility criteria</b></p>	<p>The overall sustainability quality of the Eligibility Criteria in terms of sustainability benefits, risk avoidance and minimization is good based upon the ISS ESG assessment. The Green, Social and Sustainable Debt Instruments will (re-)finance eligible asset categories which include green buildings, energy efficiency, SME financing, affordable housing, access to essential services and socioeconomic advancement and empowerment.</p> <p>Those use of proceeds categories have a positive contribution to SDGs 1 'no poverty', 3 'good health and well-being', 4 'quality education', 5 'gender equality', 7 'affordable and clean energy', 8 'decent work and economic growth', 10 'Reduced inequalities', and 13 'climate action'. The use of proceeds category green buildings (private mortgages) has a limited contribution to SDG 11 'Sustainable Cities and Communities'. The environmental and social risks associated with those use of proceeds categories have been well managed.</p>	<p><b>Positive</b></p>

<sup>3</sup> ISS ESG's evaluation is based on the Green, Social and Sustainability Financing Framework (February 8, 2022 version), on the analysed underlying eligibility criteria, and on the ISS ESG Corporate Rating updated on the February 2, 2022 and applicable at the SPO delivery date.

## ISS ESG SPO ASSESSMENT

### PART I: GREEN, SOCIAL AND SUSTAINABLE DEBT INSTRUMENTS LINK TO THE CO-OPERATIVE BANK'S SUSTAINABILITY STRATEGY

#### A. ASSESSMENT OF THE CO-OPERATIVE BANK'S ESG PERFORMANCE

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

COMPANY	INDUSTRY	DECILE RANK	TRANSPARENCY LEVEL
<b>THE CO-OPERATIVE BANK</b>	<b>PUBLIC &amp; REGIONAL BANKS</b>	<b>2</b>	<b>HIGH</b>

This means that the Company currently shows a high sustainability performance against peers on key ESG issues faced by the Public & Regional Banks industry as it obtains a Decile Rank relative to its industry group of 2, given that a decile rank of 1 indicates highest relative ESG performance out of 10.

#### ESG Performance

As of February 17, 2022, this rating places The Co-operative Bank 37<sup>th</sup> out of 272 companies rated by ISS ESG in the Public & Regional Banks industry.

Key challenges faced by companies in terms of sustainability management in this sector are displayed in the chart on the right, as well as the Company's performance against those key challenges in comparison to the average industry peers' performance.

#### Key Issue Performance



#### Sustainability Opportunities

The Co-operative Bank offers, amongst others, branch, telephone, internet and mobile banking, current accounts, mortgages, savings accounts, credit cards and loans - mainly to retail clients as well as small and medium-sized enterprises in the United Kingdom. In addition, the company provides financial services to larger businesses and organisations. For financial companies, the main opportunities are the provision of financial services with social and environmental benefits as well as the provision of equal access to financial services. Amongst others, The Co-operative Bank provides products and services for public services (e.g., health, social and childcare), community and charitable sectors (e.g. trade unions, charities), as well as environmental and social organisations (e.g. social enterprises, public transport). Compared to its peers, the share of these products and services in relation to the company's business volume is rather high. In addition, the company has implemented good measures to ensure equal access to financial markets, including a basic bank account for clients.

The Co-operative Bank also has some lending activities in the renewable energies sector. However, despite the good range of product offerings with a high social benefit, these products and initiatives so far do not constitute the major business for The Co-operative Bank.

### *Sustainability Risks*

The Co-operative Bank faces social and environmental risks related to its lending business and customer responsibility. The company has implemented an ethical policy addressing a comparatively wide range of social and environmental areas in its lending business, including human rights, basic labour laws, international development, climate change, energy efficiency and renewable energy, the development of alternatives to animal experimentation, or farming methods that promote animal welfare. The company excludes financing of companies whose core activities are within the fossil fuels industry or contribute to manufacture of chemicals that are persistent in the environment, to unsustainable harvest of natural resources, or to the development of genetically modified organisms where there is evidence of uncontrolled release into the environment. The Co-operative Bank also excludes banking services to any business or organisation that is involved in animal testing of cosmetic or household products or their ingredients, intensive farming methods (e.g., caged egg production), fur trade, or engages in irresponsible marketing practices, e.g. with regard to tobacco products. The Co-operative Bank has taken good measures to ensure customer protection in several relevant areas, as well as some measures to ensure the well-being of employees, who also benefit from high legal employment standards in the United Kingdom. Although the company has taken measures to avoid compulsory redundancies and provides outplacement services, it remains unclear whether these apply to all employees affected by the company's redundancy processes carried out in recent years. Finally, The Co-operative Bank has established a code of conduct providing guidance on business ethics and has taken some measures to ensure compliance. However, most topics are only covered in a general way.

### *Governance opinion*

A small majority of The Co-operative Bank's board of directors, including its chair, Mr. Bob Dench (as of January 01, 2022), is deemed independent and predominantly independent audit, nomination and remuneration board committees have been installed. The company discloses its remuneration policy for executives on an aggregated basis only.

With regard to the company's governance of sustainability, the company has established an independent committee tasked with the supervision of sustainability issues. ESG targets are included in the executive remuneration scheme, however, no details are available. The Co-operative Bank has established a code of conduct providing guidance on business ethics (e.g., corruption) as well as some measures to ensure compliance. However, most topics are only covered in a general way.

### *Sustainability impact of products and services portfolio*

Using a proprietary methodology, ISS ESG assessed the contribution of The Co-operative Bank's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the company's production process. According to ISS ESG limited information is available to conclude on the impact (contribution and/or obstruction) of the overall portfolio to the UN SDGs.

### *Breaches of international norms and ESG controversies*

As of January 27, 2022, the company is not facing any severe controversy.

## B. CONSISTENCY OF GREEN, SOCIAL AND SUSTAINABLE DEBT INSTRUMENTS WITH THE CO-OPERATIVE BANK'S SUSTAINABILITY STRATEGY

### *Key sustainability objectives and priorities defined by the Company*

In 1992, The Co-operative Bank introduced its ethical policy. The policy governs The Co-operative Bank's approach to banking, business, products & services, workplace & culture, and campaigns. The Co-operative Bank publishes an annual sustainability report, which has been updated in 2021<sup>4</sup> to reflect The Co-operative Bank's sustainability achievements. The ethical policy, sustainability report and the underlying framework cover key sustainability priorities and goals:

1. Sustainability goals
  - a. The Co-operative Bank is committed to assessing the impact of its indirect emissions with a view to announcing its net zero target date at the end of 2022.
  - b. By the end of 2022, The Co-operative Bank aims to keep its operational GHG emissions intensity ratio below 1.8 from the 2019 baseline of 2.4.<sup>5</sup>
  - c. By the end of 2023, The Co-operative Bank aims to have 45% of senior positions filled by women (2021: 41%)
  - d. In 2022, the Company plans to launch new ESG products, including green mortgages and a homeless bank account
2. Sustainability reporting
  - a. The company currently reports against a number of material ESG issues, including staff related topics, supply chain management, society, business ethics, customer and product responsibility, environmental management, and industry-specific environmental and social impacts in varying degrees of detail.
  - b. The Co-operative Bank made disclosures in line with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations in its 2021 ARA and will look to enhance the details of these disclosures in 2022.
  - c. As a signatory to the UNEP FI Principles for Responsible Banking, The Co-operative Bank reports on its progress in implementing the principles.<sup>6</sup>
3. Social and green financial services
  - a. Lending to affordable housing providers.

<sup>4</sup> The Co-operative Bank Sustainability Report 2021

<sup>5</sup> Carbon Intensity (tCO<sub>2</sub>e/FTE) considering sources of emissions: Fuel combustion, Electricity consumption (per unit of electricity calculated by DEFRA and updated annually), Refrigerant leakages, Business travel. The Issuer reports to source electricity from renewable energy suppliers.

<sup>6</sup> [The Co-operative Bank Principles for Responsible Banking 2021](#)

- b. COVID-related CBILS.
  - c. Mortgage lending to low- and moderate-income families, first time buyers, help-to-buy applicants, and self-employed individuals or contractors.
  - d. Community lending with a focus on disadvantaged regions and/or social infrastructure.
  - e. Financing and/or investing in renewable energies or energy-efficiency solutions.
4. General environmental and social guidelines for lending
    - a. Include client-related resource efficiency aspects relating to energy, pollution prevention, waste management and ecosystem and biodiversity.
    - b. Exclude controversial business sectors and/or practices.
    - c. Exclude carbon intensive activities.
    - d. Cover client-related community health and safety aspects, and aspects relating to vulnerable and/or disadvantaged populations.
  5. Application procedures of environmental and social guidelines and transparency on implementation
    - a. The company conducts environmental and social risk and impact assessments.
    - b. The company provides information on its project/loan monitoring and supervision processes, including information on the regularity and/or content of client reporting.
    - c. The company integrates its ethical policy into its supplier relationships through its sustainable procurement and supplier policy.

### *Rationale for issuance*

The Co-operative Bank's Green, Social and Sustainability Financing Framework (the "framework") aims to become the reference document for all future green, social and sustainable finance instruments issued by The Co-operative Bank.

The framework enables The Co-operative Bank to issue green, social and sustainable debt instruments to facilitate the funding of assets with environmental or social benefits that aim at supporting the United Nations Sustainable Development Goals ("UN SDGs").

The Co-operative Bank states that SMEs contribute to positive social outcomes such as regional development, reduced socioeconomic and gender inequalities, as well as poverty reduction. These are all themes aligned with The Co-operative Bank's strategic purpose and the Green, Social and Sustainability Financing Framework.

The Co-operative Bank states the aim to address social inequalities by making home ownership in the UK more accessible to its client base. The Co-operative Bank states the commitment to providing financial services for home purchases to a diverse range of individuals and families, including those customers on low and moderate incomes and those purchasing a home for the first time.



The Co-operative Bank states their objective to encourage buildings to be constructed in an energy-efficient manner by financing green buildings, and the installation of renewable energy technology and energy efficient materials aimed at reducing emissions and electricity consumption from buildings.

*Contribution of Use of Proceeds categories to sustainability objectives and priorities*

ISS ESG mapped the Use of Proceeds categories financed under this Green, Social and Sustainability Financing Framework with the sustainability objectives defined by the Company, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Public & Regional Banks industry. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g., climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE COMPANY	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
<b>SME Financing</b>	✓	✓	Contribution to a material objective
<b>Affordable Housing</b>	✓	✓	Contribution to a material objective
<b>Access to Essential Services</b>	✓	✓	Contribution to a material objective
<b>Socioeconomic Advancement &amp; Empowerment</b>	✓	✓	Contribution to a material objective
<b>Green Buildings</b>	✓	✓	Contribution to a material objective
<b>Energy Efficiency</b>	✓	✓	Contribution to a material objective

**Opinion:** ISS ESG finds that the use of proceeds financed through these bonds are consistent with The Co-operative Bank’s sustainability strategy and material ESG topics for the Public & Regional Banks industry. The rationale for issuing Green, Social and Sustainable Debt Instruments is clearly described by the company.

## PART II: ALIGNMENT WITH ICMA’S GREEN BOND PRINCIPLES, SOCIAL BOND PRINCIPLES, AND SUSTAINABILITY BOND GUIDELINES

### 1. Use of Proceeds

#### FROM THE ISSUER’S FRAMEWORK

Eligible green assets and eligible social assets constitute the eligible assets. They correspond to an eligible asset portfolio that contains new and/or existing loans. The eligible assets will be disbursed or allocated after the issuance of the corresponding bonds. Existing loans included from The Co-operative Bank’s current loan portfolio must have been originated within the 24-months period prior to the issuance of any Green, Social or Sustainable Bond issued under this Framework.

#### ii) Green debt instruments and eligible green assets

The net proceeds of The Co-operative Bank’s green debt instruments will be used exclusively to finance and/or refinance, in whole or in part, loans that seek to address or mitigate a specific environmental issue and/or seek to achieve positive environmental outcomes, including reducing greenhouse gas (GHG) emissions and reducing pollution. These loans directly contribute to a number of UN SDG targets and indicators as outlined in “Part III – Sustainability Quality of the Issuance, Section A.”

ICMA GBP Category	Eligible Green Assets	Benefits	Objectives
Green Buildings	<ul style="list-style-type: none"> <li>Loans for new and existing residential/domestic properties (residential mortgages) which score A or B according to their Energy Performance Certificate (“EPC”)<sup>7</sup> (currently ranging from A to G, where G is least energy-efficient)</li> <li>Loans for new and existing commercial properties which score A or B according their EPC (currently ranging from A to G, where G is least energy-efficient)</li> </ul>	Reducing energy usage and GHG emissions	Climate change mitigation

<sup>7</sup> In the UK, and EPC is required whenever a property is built, sold or rented. An EPC contains i) information about a property’s energy use and typical energy costs and ii) recommendations about how to reduce energy use and save money (please see <https://www.gov.uk/buy-sell-your-home/energyperformance-certificates> for more information)

Energy Efficiency	<ul style="list-style-type: none"> <li>Loans to retail or SME customers to facilitate the installation of renewable energy technologies (e.g. solar panels or pole-mounted wind turbines) for existing residential or commercial buildings, thereby supplying clean energy directly to the grid or directly reducing grid emissions</li> <li>Loans to retail or SME customers to facilitate the retrofit/renovation of existing residential or commercial buildings (e.g. via thermo-efficient glazing, air source heat pumps, insulation, solar heating, etc.) which result in a verified and measurable improvement in energy efficiency or decrease of energy use</li> </ul>	Increasing adoption of renewable energy; reducing energy usage and GHG emissions	Climate change mitigation
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The Co-operative Bank has not yet established a minimum threshold for the ‘Energy efficiency’ category pending further assessments. The Value, Ethics and Sustainability Committee (detailed in the ‘Asset Evaluation and Selection’ section) will review each potential eligible project to establish whether the efficiency improvement is quantifiable, verifiable and ambitious, with the aim of achieving best market standards. Should this category be used to contribute towards the aggregate pool of Eligible Green Assets, The Co-operative Bank will publish a more detailed methodology note alongside its allocation and impact report to confirm the exact method used to verify the increase in energy efficiency or decrease in energy use of a building.

**ii) Social Debt Instruments and Eligible Social Assets**

The net proceeds of The Co-operative Bank’s Social Debt Instruments will be used exclusively to finance and/or refinance, in whole or in part, loans that seek to achieve positive social impacts, including promoting employment generation, providing affordable and quality housing, supporting charities and social enterprises and providing access to essential services.

Eligible Social Assets directly aim to address or mitigate a specific social issue and achieve positive social outcomes for a specific target population. They also directly contribute to the UN SDG targets and indicators outlined in “Part III – Sustainability Quality of the Issuance, Section A.”.

ICMA SBP Category	Eligible Social Assets	Target Populations	Social Objectives
SME Financing	<ul style="list-style-type: none"> <li>Loans to Small and Medium size enterprises (“SMEs”) which are either:                             <ul style="list-style-type: none"> <li>located in socioeconomically disadvantaged areas; and/or</li> <li>female-led businesses</li> </ul> </li> </ul> <p>The rationale and specific criteria for the target populations identified can be found in <i>SME Financing – supporting rationale &amp; criteria</i> section below</p>	<p>SMEs in economically underperforming regions of the UK</p> <p>SMEs owned or led by women</p>	<p>Support employment generation in the concerned area</p> <p>Support female entrepreneurship</p>

<p>Affordable Housing</p>	<ul style="list-style-type: none"> <li>▪ Loans to not-for-profit, accredited housing associations or co-operative housing providers registered in the UK<sup>8</sup>. To be eligible, the housing associations must be involved in the construction, management and refurbishment of properties for one or more of the following:                             <ul style="list-style-type: none"> <li>○ Social Rent</li> <li>○ Affordable Rent</li> <li>○ Shared Ownership</li> <li>○ Supported Housing</li> </ul> </li> </ul>	<p>Individuals with economic difficulties who cannot access adequate and affordable housing, leading to social vulnerabilities</p>	<p>Ensure access for all to adequate, safe and affordable housing</p>
<p>Access to Essential Services (financial services &amp; banking)</p>	<ul style="list-style-type: none"> <li>▪ Loans that enable greater access to home ownership in the UK, particularly loans for individuals with a heightened social need and/or individuals underserved by mainstream financing providers, such as                             <ul style="list-style-type: none"> <li>○ Mortgages to:                                     <ul style="list-style-type: none"> <li>▪ Applicants with low incomes</li> <li>▪ Applicants with moderate incomes</li> <li>▪ Applicants who are first time buyers and with an income below the UK median</li> </ul> </li> <li>○ Mortgages provided in conjunction with accredited Government Schemes (e.g. Help to Buy)</li> <li>○ Mortgages to individuals who are self-employed or contractors</li> <li>○ Mortgages to young professionals</li> <li>○ Mortgages originated under our “Community Mortgage” product</li> </ul> </li> </ul> <p>Loans included in this category will be for owner-occupied homes only (i.e. excluding Buy to Let). Rationale and specific criteria for the target populations identified can be found in <i>Access to Essential Services (financial services &amp; banking) – supporting rationale &amp; criteria</i> section</p>	<p>Individuals with a heightened social need and/or those underserved by mainstream financing providers</p>	<p>Enable access to housing thereby reducing social vulnerabilities and enabling financial empowerment</p>
<p>Access to Essential Services (education, healthcare and social care)</p>	<ul style="list-style-type: none"> <li>▪ Loans to essential service providers where the services provided are broadly accessible to the public or subsidised by public funding. This includes, but is not limited to, lending to essential service providers in the following fields:                             <ul style="list-style-type: none"> <li>○ Education (e.g., schools, colleges and training centres)</li> <li>○ Childcare (e.g., nurseries)</li> <li>○ Healthcare (e.g., hospitals, laboratories, clinics and hospices)</li> <li>○ Elderly care (e.g., care homes)</li> </ul> </li> <li>▪ In each case, loans may relate to:                             <ul style="list-style-type: none"> <li>○ Development, expansion or acquisition of buildings, facilities, or equipment</li> </ul> </li> </ul>	<p>Population benefitting from the publicly supported healthcare and education system</p> <p>Vulnerable populations including unemployed, elderly undereducated and persons with disabilities</p>	<p>Improve access to healthcare services for all</p> <p>Improve the quality and access to education services for all</p> <p>Improve the quality and access to social care services for all</p>

<sup>8</sup> In the United Kingdom, housing associations are private, non-profit making organisations primarily involved in constructing residential housing, as well as managing and maintaining the properties, and are regulated by the Regulator of Social Housing. Housing Associations typically fund themselves with a combination of public and private funding and can operate both locally and nationally. A list of registered housing associations is available [here](#).

	<ul style="list-style-type: none"> <li>○ Child, youth or adult education and vocational training services (which are broadly accessible to the whole public)</li> <li>○ Loans to SMEs within the sectors outlined above</li> </ul>		
Socioeconomic Advancement & Empowerment	<ul style="list-style-type: none"> <li>▪ Loans to local charities, social enterprises, non-profit organisations, foundations, and philanthropic structures, excluding those involved in political and religious activities, and including, but not limited to: <ul style="list-style-type: none"> <li>○ Healthcare</li> <li>○ Education for the socially vulnerable</li> <li>○ Youth development, empowerment, and employability</li> <li>○ Housing for the socially vulnerable</li> <li>○ Culture &amp; sport, particularly where beneficiaries reside in disadvantaged neighbourhoods</li> </ul> </li> </ul>	Vulnerable populations including unemployed, youth, elderly, undereducated and disabled individuals	Socioeconomic advancement and improvement

**SME Financing – supporting rationale & criteria**

Small and medium sized enterprises, or SMEs, are of great social and economic importance within the UK. From an economic perspective, SMEs stimulate employment (approximately 16 million people) and innovation, contributing £1.9bn to the UK economy<sup>9</sup>. SMEs also contribute to positive social outcomes in the UK such as regional development, reduced socioeconomic and gender inequalities and poverty reduction. These are all themes aligned with The Co-operative Bank’s strategic purpose and its Green, Social and Sustainability Financing Framework.

In order for SME assets to be eligible under the Framework, an SME must:

- a) Meet the definition of an SME as defined in the UK Companies Act 2006<sup>10</sup>; and
- b) Not be engaged in any business activity in violation of The Co-operative Bank’s ethical policy; and
- c) Meet the “SME Social Criteria” as defined below

To meet the **SME Social Criteria**, an SME must:

- a) Be located in a socioeconomically underperforming area of the UK, as defined below, or
- b) Be female led, with
  - i. at least 51% ownership by a woman or by women, or
  - ii. at least 20% ownership by a woman or by women, with a woman as CEO, COO, President or Vice President and a board of directors comprised of at least 30% women for public companies

<sup>9</sup> BEIS SME Action Plan, 2019.

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/783765/BEIS-SME-Action-Plan.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/783765/BEIS-SME-Action-Plan.pdf)

<sup>10</sup> UK Companies Act 2006 defines (i) a small enterprise as one which meets two of the following criteria (≤£10.2m turnover, ≤£5.1m balance sheet, ≤50 employees); and (ii) a medium enterprise as one which meets two of the following criteria (≤£36m turnover, ≤£18m balance sheet, ≤250 employees)

### **Socioeconomically underperforming areas**

The Co-operative Bank intends to map its SME financing portfolio against disadvantaged areas in the UK on a loan-by-loan basis in order to determine the pool of potential eligible social assets in this category. Since SMEs have the ability to improve social outcomes in the UK, The Co-operative Bank considers that financed SMEs located in the most disadvantaged areas of the UK have the potential for notable future social impact.

The Co-operative Bank intends to assess the relative ranking of socioeconomically underperforming areas using the national Indices of Deprivation, published by the Ministry of Housing, Communities & Local Government (or the equivalent in Scotland or Wales). A SME loan will be included as an eligible social asset if it falls within the most deprived 35% of Lower Super Output Areas (“LSOA”) in England, Scotland or Wales. It is intended to use the post code associated with each loan to determine LSOA code for each loan, which is used in the Indices of Deprivation. The Co-operative Bank intends to publish a more detailed methodology note alongside the allocation and impact report, confirming the exact index or indices used. If for any reason this methodology should become infeasible, The Co-operative Bank will implement another method to determine socioeconomically underperforming areas; this will be stated clearly in the aforementioned methodology note.

### **Affordable Housing – supporting rationale and criteria**

Housing Associations play a critical role in the UK economy, providing safe, adequate and affordable housing which helps to combat the divergence between house prices and average earnings that has occurred over the past few decades. Housing Associations fund themselves through a combination of public and private funding, which The Co-operative Bank supports through loans. To qualify as an Eligible Social Asset within this category, loans must meet the criteria described below:

- Registered housing associations operating in the UK involved in the construction, management and refurbishment of properties, ultimately leading to the provision of affordable housing (including social rented, affordable/intermediate rented, shared ownership and supported housing), provided to specified eligible households whose needs are not met by the market

### **Access to Essential Services (financial services & banking) – supporting rationale & criteria**

The Co-operative Bank enables the socioeconomic advancement and empowerment of its customers by providing and expanding access to key financial services in the UK. This is achieved, in part, through the provision of mortgages directly to individuals/households underserved by mainstream financing providers, thereby enabling and promoting financial inclusion. To qualify as an Eligible Social Asset within this category, loans must meet the criteria within one of the following five categories:

- **Households with Assessed Incomes below the UK median Household Disposable Income<sup>11</sup>**

The Co-operative Bank is committed to supporting a wide range of individuals and families purchase a home, including those customers on low & moderate incomes and those purchasing a home for the

<sup>11</sup> UK Median Household Disposable Income was £29,900 in the financial year ending 2020, according to the [Office for National Statistics \(ONS\) Household Finance Survey](#)

first time (first time buyers). In order for mortgage assets to be eligible under this sub-category, they must be:

- To applicants with low incomes, defined as those with Assessed Incomes less than 60% of the UK median Household Disposable Income
- To applicants with moderate incomes, defined as those with Assessed Incomes between 60% and 85% of the UK median Household Disposable Income
- To first time buyer applicants with Assessed Incomes below the UK median Household Disposable Income

Assessed Income is defined as the household income of a mortgage application, as determined through The Co-operative Bank's standard credit assessment using data submitted by the applicants.

- Mortgages provided in conjunction with accredited government schemes Help to Buy

The UK Government is committed to supporting home ownership in the UK, particular for those on low and medium incomes, including through dedicated schemes such as Help to Buy. Help to Buy is a government scheme designed to support lower income individuals and families purchase a home where regular retail banks and building societies would not have appetite to lend the full sum through a traditional mortgage. Applicants can contribute as little as a 5% deposit, with the Government providing up to 20% (40% in London) in the form of an equity loan, and the remainder provided through a mortgage, thereby supporting individuals on lower incomes to purchase a home. Should the Help to Buy scheme be replaced by another accredited Government scheme aimed at increasing home ownership, then The Co-operative Bank's mortgages originated in association with this scheme will also be eligible under this framework.

- Individuals who are self-employed or contractors

Many individuals, particularly those without regular, salaried incomes such as self-employed and contractors, still face difficulty obtaining financial services from the main UK high street lenders. The Co-operative Bank caters to this segment of the market through more bespoke underwriting processes for applications from those with complex income and is able to provide mortgage financing to self-employed individuals with only two years of trading history.

- Young Professionals

The Co-operative Bank has developed a professional mortgage product which allows us to increase our maximum mortgage offer (5.5x income) vs. our standard mortgage product for the following professions: Accountants, Architects, Actuaries, Chartered Surveyors, Dentists, Medical Doctors, Optometrists, Pharmacists, Solicitors and Veterinarians. Since the age of first-time home ownership has been rising for the past few decades, this is one of The Co-operative Bank's solutions to counter this trend and allows young professionals (qualified in the last five years) to purchase a home with a lower deposit than they otherwise would need. To qualify as an Eligible Social Asset under this framework, applicants must be under 34 years of age.

- Community Mortgage

The Co-operative Bank is developing a product which is designed to support first time buyers and young people to purchase a home who may be looking at market or lender schemes to support with purchase,

by using a deposit pool from our members who are savers to support mortgage lending. Through a larger deposit, this supports those in other incomes to purchase a home.

### iii) Exclusion List

The Co-operative Bank excludes any assets involving businesses or industries that are considered to have potential negative social impacts (e.g., human rights, labour rights, health and safety at work or any other project with negative impact on communities) or negative environmental impacts from being included as becoming eligible assets; it is important to note that this screening/exclusion is fundamental to The Co-operative Bank's ethical policy, which is applied to all lending.

Therefore, we will not knowingly allocate the proceeds from any Green, Social and Sustainability debt issued under this Framework to businesses or enterprises that meet any of the following criteria:

1. Businesses that fail to meet our ethical policy<sup>12</sup>
2. Businesses which are found to have engaged in illegal business practices
3. Businesses involved in severe controversies or incidents with material negative social aspects

It will fall within the remit of the Value, Ethics and Sustainability Committee to monitor and enforce this exclusion list.

In addition, non-performing loans and encumbered assets will also be ineligible for allocation of the proceeds of Green, Social and Sustainability Bonds issued under this Framework.

**Opinion:** ISS ESG considers the Use of Proceeds described by The Co-operative Bank's Green, Social and Sustainability Financing Framework as aligned with ICMA's Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines. The company uses eligible green and social asset categories proposed by the standards. Environmental and social benefits are assessed. In addition, the company defines specific targeted populations for its eligible social asset categories. Moreover, the company provides the expected look-back period for refinanced eligible green and social projects, in line with best market practice.

## 2. Process for Project Evaluation and Selection

### FROM THE ISSUER'S FRAMEWORK

The Co-operative Bank has established a Value, Ethics and Sustainability Committee ("VESCo" or the "Committee") to manage and provide robust oversight to its Framework. VESCo is comprised of key individuals with appropriate and sufficient expertise from all of the relevant departments involved in the origination and monitoring of Eligible Assets including:

- Treasury (including Treasurer)
- Strategy

<sup>12</sup><https://www.co-operativebank.co.uk/assets/pdf/bank/values-and-ethics/ethical-policy.pdf>



- Brand / Marketing
- External Communications
- Retail
- SME
- Credit and Regulatory Risk
- Secretariat
- Compliance

The appointed chair of the Committee is the Chief Administrative Officer, and the Committee directly reports to ExCo. VESCo oversees the governance of the Green, Social and Sustainability Financing Framework, and its responsibilities include:

- Ensuring the proceeds of any green, social and sustainability instruments issued under the Framework will be used to finance and/or refinance eligible assets as described in the use of proceeds section
- Monitoring the eligible assets to ensure they remain compliant with the criteria set out in the Use of Proceeds section
- Monitoring the eligible assets to ensure they are compliant with the ethical policy, including the sector-based exclusion criteria, activity-based exclusion criteria and the minimum social safeguards (such as labour rights as set out in the UN ILO Conventions)
- Managing and overseeing any future updates of the framework including the addition of new eligible categories, the alignment of the eligibility criteria with best market practices and/or obtaining an updated Second Party Opinion
- Documenting the evaluation and selection process in order to facilitate external verification of whether selected loans meet the criteria set out in the use of proceeds section
- Ensuring that all eligible assets comply with applicable UK and international environmental and social standards and regulations, as well as The Co-operative Bank's own standards and policies, which can be found on The Co-operative Bank's website. These policies include The Co-operative Bank's ethical policy, Code of Conduct Policy, Sustainable Procurement Supplier Policy, and Anti-Money Laundering (AML), Counter Terrorist Financing (CTF) and Financial Sanctions (FS) policies, amongst others

The overall process for managing and monitoring asset evaluation and selection of the proceeds is as follows:

- All potential eligible assets are subject to The Co-operative Bank's regular credit processes, including KYC / customer acceptance standards and credit risk assessments. Sustainability is an inherent part of this assessment process vis-à-vis the ethical policy
- The relevant department of The Co-operative Bank carries out a pre-selection of potential Eligible Assets (using the criteria detailed in the Use of Proceeds section of the framework);
- The potential eligible assets are submitted by The Co-operative Bank's relevant departments to VESCo for approval. The Committee verifies the alignment of the pre-selected assets to the eligible asset criteria, including compliance with the exclusion list and ethical policy referenced in the Framework

- The eligible assets are clearly identified within The Co-operative Bank's internal information system

In the case of the term non-recourse securitisation through the Silk Road programme (or any similar programme which The Co-operative Bank establishes), the underlying asset pool will on a best-efforts basis meet the green and social eligibility criteria outlined within this Framework.

**Opinion:** ISS ESG considers the Process for Project Evaluation and Selection description provided by The Co-operative Bank's Green, Social and Sustainability Financing Framework as aligned with ICMA's Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines. Moreover, the projects selected show alignment with the sustainability strategy of the Company. The Company provides transparency, clearly defined responsibilities and makes use of both internal and external expertise in its evaluation and selection process. ESG risks related to the project categories are managed at corporate level.

### 3. Management of Proceeds

#### FROM THE ISSUER'S FRAMEWORK

Only eligible social assets can be allocated to The Co-operative Bank's social debt instruments and only Eligible Green Assets can be allocated to The Co-operative Bank's green debt instruments. In the event that The Co-operative Bank was to issue sustainability debt instruments, the net proceeds would be allocated to both eligible green assets and to eligible social assets.

The Co-operative Bank has set up an internal information system enabling the recording and tracking of the Eligible Assets, ensuring the net proceeds of the Green, Social and Sustainability Bonds will be allocated accordingly until the relevant bonds mature.

At least quarterly, VESCo will ensure that:

- The criteria specified in the Use of Proceeds sections continue to be met for the entire eligible asset portfolio
- Any asset that no longer meets these criteria will be removed and replaced with new eligible assets, once they have been identified. Amortised, prepaid, or redeemed eligible assets will also be replaced by new eligible assets
- The total eligible asset portfolio meets or exceeds the net proceeds raised by green, social and sustainability debt instruments

An ordinary revolving and substitution policy will maintain a direct relationship between eligible asset amounts and tenors with the relevant outstanding Green, Social and Sustainability Bonds. To ensure the continuous intent of this commitment and taking into account the potential evolution of eligible assets:

- The amount of the eligible asset portfolio will always exceed the amount of the Green, Social and Sustainability Bonds outstanding by a relevant factor

- The amount of the eligible green assets will always exceed the amount of the Green Bonds outstanding by a relevant factor
- The amount of the eligible social assets will always exceed the amount of the Social Bonds outstanding by a relevant factor
- The amount of the eligible social and green assets will also take into consideration any Sustainability Bonds outstanding for the eligible asset portfolio

The Co-operative Bank may select eligible assets originated up to 24 months prior to the respective green, social or sustainability debt issuance. The company expects to allocate an amount equivalent to the net proceeds raised by each issuance to the eligible asset portfolio within 12 months of issuance.

Pending the full allocation of the proceeds or in the unlikely case of insufficient eligible assets, The Co-operative Bank commits to hold the additional funds in the Group's Treasury, in accordance with its liquidity policy and, to the extent possible, invest in green, social and sustainability debt instruments.

**Opinion:** ISS ESG finds that Management of Proceeds proposed by The Co-operative Bank's Green, Social and Sustainability Financing Framework is well aligned with ICMA's Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines. The company's Value, Ethics and Sustainability Committee will ensure at least on a quarterly basis that the total eligible asset portfolio meets or exceeds the proceeds raised by Green, Social and Sustainability Bonds and that eligibility criteria are met. The company specifies the investment instruments for unallocated proceeds and an expected allocation period is defined.

#### 4. Reporting

##### FROM THE ISSUER'S FRAMEWORK

The Co-operative Bank will publish an annual Green, Social and Sustainability Financing Report on its website, detailing both the allocation of the net proceeds of the Green, Social and Sustainability Bonds issued, including any Green or Social RMBS, as well as impact information concerning the eligible assets portfolio. For the avoidance of doubt, reporting will be made on a reporting/aggregated basis rather than on an individual basis.

The Co-operative Bank will report on the allocation of net proceeds of the Green, Social and Sustainability Bonds issued and the related impact metrics within one year from the first borrowing date of each issuance and annually thereafter until the proceeds have been fully allocated. The Co-operative Bank will publish this information on the Investor Relations section of its website (<https://www.co-operativebank.co.uk/about-us/investor-relations>).

The Co-operative Bank also commits to report any material developments of the eligible asset portfolio, should the need arise on a more frequent basis. This reporting commitment of the eligible asset portfolio will cease once all Green, Social and Sustainability Bonds have matured.

## I. Allocation Reporting

The Co-operative Bank will include the following information in its allocating reporting:

- Summary terms of the Green, Social and Sustainability debt instruments issued during the reporting period and outstanding at the reporting date
- The amount and/or percentage of new and existing assets (i.e. share of financing vs. refinancing) in the eligible asset portfolio
- Gross lending to each borrower segment (as outlined in the Use of Proceeds section of this document), broken down by the respective eligible assets
- A mapping of the loans to the relevant SDGs; and
- The balance of unallocated proceeds, if any

## II. Impact Reporting

The Co-operative Bank intends to report on the environmental and social impacts of the eligible assets financed and/or refinanced. Potential impact indicators will cover both qualitative and quantitative metrics, where possible, including:

- # of loans included in the Eligible Asset Portfolio
- GHG annual emissions avoided (in tCO2 equivalent)
- Annual energy savings in MWh
- # of beneficiaries
- # of loans extended to SMEs in socioeconomically disadvantaged areas
- # of loans extended to female businesses
- # of loans granted to non-profit organizations and/or estimated # of beneficiaries of non-profit organizations
- # of loans provided to support affordable housing in the UK and/or # of beneficiaries relating to affordable housing
- # of loans granted to providers of essential services, such as healthcare, education and social care and/or # of people served by these essential services
- # of jobs sustained or generated by financed SMEs
- Qualitative examples of assets financed / refinanced under this Framework (e.g. case studies)

The Co-operative Bank, subject to the availability of information, will seek to align its reporting with the approach detailed in ICMA's "Handbook – Harmonised Framework for Impact Reporting" (June 2021) and "Working Towards a Harmonized Framework for Impact Reporting for Social Bonds" (June 2020).

**Opinion:** ISS ESG finds that the reporting proposed by The Co-operative Bank's Green, Social and Sustainability Financing Framework is aligned with ICMA's Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines. The company commits transparently on the level of expected reporting, project categories and reporting metrics, reporting scope, covering period, and reporting frequency, referring to ICMA's Harmonized Frameworks of Impact Reporting. The company provides the location where the report will be publicly available, reflecting best market practices.

## External review

### FROM THE COMPANY'S FRAMEWORK

#### External Verification (post-issuance)

The Co-operative Bank also intends to request external verification from an independent third party on the allocation of the net proceeds from any Green, Social or Sustainability debt issued under this Framework on an annual basis until full allocation, or in the event of significant changes in the allocation of proceeds.

The post-issuance external verification report, along with The Co-operative Bank's Green, Social and Sustainability Financing Framework and the Second Party Opinion, will be made publicly available on Co-operative Bank's website.

## PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE







### A. CONTRIBUTION OF THE GREEN, SOCIAL AND SUSTAINABLE DEBT INSTRUMENTS TO THE UN SDGs

Based on the assessment of the sustainability quality of the Green, Social and Sustainable Debt Instruments Eligibility Criteria and using a proprietary methodology, ISS ESG assessed the contribution of the Co-operative Bank's Green, Social and Sustainable Debt Instruments to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 2 for methodology):

<b>Significant Obstruction</b>	<b>Limited Obstruction</b>	<b>No Net Impact</b>	<b>Limited Contribution</b>	<b>Significant Contribution</b>
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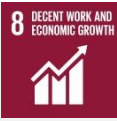







Each of the Green, Social and Sustainable Debt Instruments Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<b>Eligible Environmental Categories</b>		
<b>Green Buildings</b> Loans for new or existing residential/domestic or commercial properties which score A or B according to their Energy Performance Certificate (EPC)	<b>Limited Contribution<sup>13</sup></b>	
<b>Energy Efficiency</b> Installation of renewable energy technologies to existing residential or commercial buildings <sup>14</sup>	<b>Significant Contribution</b>	 
<b>Energy Efficiency</b> Retrofit/renovation of existing residential or commercial buildings which results in a verified and measurable increase in energy efficiency or decrease of energy use	<b>Limited Contribution</b>	 
<b>Eligible Social Categories</b>		
<b>SME Financing<sup>15</sup></b>	<b>Limited Contribution<sup>20</sup></b>	

<sup>13</sup> This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an Issuer's product and service portfolio on the SDGs.

<sup>14</sup> E.g., Solar panels or pole-mounted wind turbines

<sup>15</sup> SME as defined in the UK Companies Act 2006

<p>Loans to businesses located in socioeconomically disadvantaged areas in the UK</p>	<p><b>Significant Contribution<sup>16</sup></b></p>	
<p><b>SME Financing</b> Loans to businesses owned or led by women (as defined by the Company)</p>	<p><b>Significant Contribution<sup>17</sup></b></p>	
<p><b>Affordable Housing</b> Loans to accredited registered housing associations operating in UK<sup>18</sup></p>	<p><b>Limited Contribution</b></p>	
<p><b>Access to Essential Services - Financial services &amp; banking</b> Mortgages to applicants with low incomes<sup>19</sup>, applicants with moderate incomes<sup>20</sup>, first time buyers with incomes below the UK median, individuals who are self-employed or contractors, and young professionals</p>	<p><b>Limited Contribution<sup>21</sup></b></p>	
<p><b>Access to Essential Services -Healthcare</b> Development, expansion, or acquisition of healthcare equipment including but not limited to treatment devices, diagnostic services and financial services supporting the operation of healthcare facilities e.g., hospitals</p>	<p><b>Significant Contribution</b></p>	
<p><b>Access to Essential Services - Education</b> Child, youth or adult education included but not limited to primary or secondary education services and vocational training services</p>	<p><b>Significant Contribution</b></p>	
<p><b>Access to Essential Services</b> Development, expansion, or acquisition of buildings and facilities relating to healthcare<sup>22</sup> and education infrastructure</p>	<p><b>Significant Contribution</b></p>	
<p><b>Socioeconomic Advancement &amp; Empowerment<sup>23</sup></b> To charities supporting the provision of housing for low-income or otherwise disadvantaged persons; healthcare; education; sport equipment and programs</p>	<p><b>Limited Contribution</b></p>	

<sup>16</sup> This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an issuer's product and service portfolio on the SDGs

<sup>17</sup> This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an issuer's product and service portfolio on the SDGs

<sup>18</sup> In the United Kingdom, housing associations are private, non-profit making organisations primarily involved in constructing residential housing, as well as managing and maintaining the properties, and are supervised by the Regulator of Social Housing

<sup>19</sup> Defined as those with Assessed Incomes below 60% of the UK median Household Disposable Income

<sup>20</sup> Defined as those with Assessed Incomes between 60% and 85% of the UK median Household Disposable Income

<sup>21</sup> This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an issuer's product and service portfolio on the SDGs

<sup>22</sup> E.g., Hospitals, laboratories, clinics, care homes

<sup>23</sup> Financing/refinancing for local charities, social enterprises, non-profit organisations, foundations, and philanthropic structures

## B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE ELIGIBILITY CRITERIA

The table below presents the findings of an ISS ESG assessment of the selection criteria for eligible social and environmental categories against ISS ESG KPIs.

### Key performance indicators (KPIs) Green and Social activities

#### ASSESSMENT AGAINST ISS ESG KPI

##### Labour, health & safety

- ✓ All assets to be financed under this framework provide for high labour and health and safety for construction and maintenance work being located exclusively in the UK that has ratified all ILO core conventions.

##### Responsible treatment of customers with debt repayment problems<sup>24</sup>

- ✓ Measures such as pro-actively approaching customers potentially at risk, covenants limiting indebtedness are in place. In addition, The Co-operative Bank outlines measures put in place to support customers facing financial difficulties (e.g., implementing payment deferrals, offering government-backed CBILS and Bounce-Back Loans). Further the company has taken pre-emptive actions to prevent issues with debt repayment. The company launched the Know Economic Abuse campaign in October 2020 in collaboration with Refuge.

### Key performance indicators (KPIs) Social activities

#### ASSESSMENT AGAINST ISS ESG KPI

##### Inclusion<sup>25</sup>

- ✓ The Co-operative Bank provides loans to first time home buyers and provides support and services for customers facing financial difficulty. Financial inclusion is part of The Co-operative Bank's sustainability checklist in their annual sustainability report. Every business application is screened against the ethical policy which includes inclusion as a category. In addition, the company adheres to the UK Equality Act (2010).

- ✓ Limited information is available relating measures in place to promote inclusion and non-discrimination access and prohibit discrimination in the workplace at beneficiaries' level. However, the company operates exclusively in the UK and adheres to national legislation (e.g., UK Equality Act 2010). Further, charities in the UK are registered with and regulated by The Charity Commission. The company also refers to the explicit exclusion of financing to organisations involved in political and religious activities as outlined in the underlying framework.

<sup>24</sup> Essential Services, SME financing, Socioeconomic Advancement & Empowerment, Financial Services & Banking and Green Building categories

<sup>25</sup> Essential Services, SME financing, Socioeconomic Advancement & Empowerment and Financial Services & Banking categories



### Quality management<sup>26</sup>

- ✓ The Co-operative Bank has a Know Your Customer and onboarding processes for lending in place to ensure services provided are credible. Moreover, all borrowers are domiciled in the UK, where strong medical and education standards are in place. In addition, The Co-operative Bank undertakes yearly reviews, as part of its ethical policy and screening process.

### Exclusion of sectors & activities that have a detrimental impact on environment or society<sup>27</sup>

- ✓ The Co-operative Bank's ethical policy excludes sectors & activities that have a detrimental impact on environment or society from being provided their banking services. Further the company signed up to the UNEP FI's Principles of Responsible Banking in February 2020.

### Safety of building users<sup>28</sup>

- ✓ Buildings being exclusively located in UK under UK Building Regulations (2010) providing for measures to ensure safety (e.g., emergency exits, fire sprinklers, fire alarm systems).

### Biodiversity (Site selection)<sup>36</sup>

- ✓ The company operates in UK exclusively where the Environmental impact assessment (EIA) is applicable when relevant. Moreover, the Co-operative Bank's ethical policy<sup>29</sup> includes a checklist for business loan applicants to assess the company's involvement in controversial activities (including parent company and subsidiaries). Further the policy details several measures considering biodiversity aspects through the selection criteria.

## Key performance indicators (KPIs) Green activities

### ASSESSMENT AGAINST ISS ESG KPI

#### Energy efficiency (for Green Buildings)

- ✓ The Co-operative Bank will provide loans to new and existing residential/domestic properties and commercial properties which score A or B according to their Energy Performance Certificate ("EPC").

#### Energy efficiency (for Energy efficiency)

- No information is available on the level of energy efficient improvement that will be reached for the assets financed under this framework. The Co-operative Bank will confirm in its annual impact reporting the method to measure the decrease in energy use and the threshold chosen as well as the actual annual energy savings in MWh. The

<sup>26</sup> Essential Services category

<sup>27</sup> Essential Services, SME financing and Socioeconomic Advancement & Empowerment categories

<sup>28</sup> Affordable Housing and Essential services (Healthcare and education infrastructure) categories

<sup>29</sup> The Co-operative Bank Ethical Policy 2021

company is considering a partnership with an energy usage software company that customers can sign up to which will report energy savings.

**Circular Economy (Energy efficiency – on-site renewable energy)**

- No or limited information is available on whether waste related risks have been reduced and policies or measures are in place to promote circular economy.

## DISCLAIMER

1. Validity of the SPO: As long as there is no material change to the framework.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the Issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the Issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
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## ANNEX 1: Methodology

### ISS ESG Green and Social KPIs

The ISS ESG Green Bond and Social Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Co-operative Bank's Green Bonds, Social Bonds, and Sustainability Linked Bonds.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

### Environmental and social risks assessment methodology

ISS ESG evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green Bond and Social Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Green Bond and Social Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by Co-operative Bank (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the Issuer.

### Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which Co-operative Bank's Green, Social and Sustainability Bonds contributes to related SDGs.

## ANNEX 2: ISS ESG Corporate Rating Methodology

### Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

**ESG Corporate Rating** - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

**Analyst Opinion** - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

**Norm-Based Research - Severity Indicator** - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

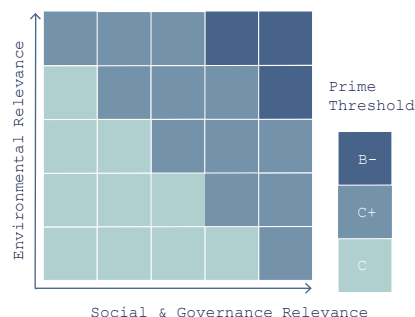
Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

**Decile Rank** - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

**Distribution of Ratings** - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

**Industry Classification** - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



**Industry Leaders** - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

**Key Issue Performance** - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

**Performance Score** - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

**Rating History** - Development of the company's rating over time and comparison to the average rating in the industry.

**Rating Scale** - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

**Sources of Information** - A selection of sources used for this report is illustrated in the annex.

**Status & Prime Threshold** - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

**Transparency Level** - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

## ANNEX 3: Quality management processes

### SCOPE

The Co-operative Bank commissioned ISS ESG to compile a Green Bond, Social Bond, and Sustainability Linked Bond SPO. The Second Party Opinion process includes verifying whether the Green, Social and Sustainability Financing Framework aligns with the ICMA's Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines (GBP/SBP/SBG) and to assess the sustainability credentials of its Green, Social and Sustainable Debt Instruments, as well as the Issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA's Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines (GBP/SBP/SBG)
- ISS ESG Key Performance Indicators relevant for use of proceeds categories selected by the Issuer

### ISSUER'S RESPONSIBILITY

The Co-operative Bank's responsibility was to provide information and documentation on:

- Framework
- Eligibility Criteria
- Documentation of ESG risks management

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

- ISS ESG has conducted this independent Second Party Opinion of the Green, Social and Sustainable Debt Instruments to be issued by The Co-operative Bank based on ISS ESG methodology and in line with ICMA's Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines (GBP/SBP/SBG)

The engagement with The Co-operative Bank took place from January to February 2022.

### ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For more information on SPO services, please contact: [SPOsales@isscorporatesolutions.com](mailto:SPOsales@isscorporatesolutions.com)

For more information on this specific Green Social and Sustainability Bond SPO, please contact: [SPOOperations@iss-esg.com](mailto:SPOOperations@iss-esg.com)

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