Glossary
For the Annual Report and Accounts 2017

The following glossary defines terminology used within the Annual Report and Accounts 2017 of The Co-operative Bank Holdings Limited and The Co-operative Bank plc to assist the reader and to facilitate comparison with publications by other financial institutions. References have been made to 'Bank' rather than 'Group' in the definitions relating to banking operations below provided below as this is the operating level of the Group.

Terminology	Definition
Advanced Internal Ratings Based (IRB) approach	Advanced Internal Ratings Based approach stipulated within CRR allows a more sophisticated and risk sensitive approach to calculate credit risk. More advanced than Foundation IRB approach as PD, LGD and EAD parameters are derived by the Bank.
Almost prime	Almost prime lending is lending to borrowers with very low levels of adverse credit history.
AML	Anti-money laundering.
AML risk	The risk that anti-money laundering policies and procedures in place are inadequate or not enforced appropriately.
Arrears	Customers are said to be in arrears or non-performing when they are behind in fulfilling their obligations with the result that an outstanding loan is unpaid or overdue. Corporate customers may also be considered non-performing prior to being behind in fulfilling their obligations. This can happen when a significant restructuring exercise begins.
Authorities	HM Treasury, the Bank of England, the FCA and/or the PRA.
Available for sale (AFS)	AFS is a default classification applicable when a financial asset does not properly belong in one of the three other categories of financial assets – at fair value through profit or loss, held to maturity or loans and receivables. AFS normally includes equity and quoted debt securities not classified or designated at fair value through profit or loss, other than quoted debt securities held to maturity.
BaCB (Business and Commercial Banking)	The segment of the Bank which specialises in lending to businesses.
Bank	The Co-operative Bank plc and its subsidiaries. The Bank is the operating level of the Group, with all customer assets and deposits and associated operations.
Basel II	A statement of best practice issued by the Basel Committee on Banking Supervision that defines the methods by which firms should calculate their regulatory capital requirements to retain enough capital to protect the financial system against unexpected losses. Basel II became law in the EU Capital Requirements Directive, and was implemented in the UK via the FSA Handbook. Basel 2.5 was an interim strengthening of requirements laid out in Basel II, with changes focusing on trading book and securitisations. Basel 2.5 was implemented within the UK in 2011 via the FSA's policy statement PS11/12.
Basel III	A strengthening of the requirements laid out in Basel II, to be phased into the Bank from 2014 ahead of full implementation by 2022. Basel III is implemented within the UK through CRD IV. Basel III is a broader review of every aspect of the international prudential framework for capital requirements.
Basis points (bps)	One hundredth of a percent (0.01%), so 100 basis points is 1%. Used in quoting movements in interest rates or yields on securities.
Board	The Board of Directors. They manage the Bank's business performance in line with its purpose, givens, vision and values.
Business continuity risk	The risk that the recognition of potential threats and risks facing the Bank is inadequate to ensure that personnel and assets are protected and able to function in the event of a disaster.
Buy-to-let	A commercial practice of buying a property to let to tenants, rather than to live in.
Calico	Calico Finance Number One Designated Activity Company (formerly Calico Finance Number One Limited).
Capital bonds	Fixed term customer accounts with returns based on the movement in an index (e.g. FTSE 100) over the term of the bond.
Capital ratio	Total of Tier 1 capital plus Tier 2 capital, all divided by RWAs.
Capital requirements	Capital required under Pillar 1. Capital requirements are 8% of Risk Weighted Assets. See also Minimum capital requirement.
Capital Requirements Directive (CRD IV)	Capital Requirements Directive is a European regulation that applies directly to UK financial institutions, part of the CRD IV package. Broadly, it contains a supervisory framework to ensure firms are able to meet their liabilities as they fall due, implementing the Basel III set of reform measures.
Capital Requirements Regulation (CRR)	CRR is a European regulation that applies directly to UK financial institutions. Broadly, it implements the Pillar 3 aspects of Basel III in relation to capital adequacy and new liquidity requirements. CRR is part of CRD IV.
Capital resources	Capital held, allowable under regulatory rules, less certain regulatory adjustments and deductions that are required to be made. Capital includes retained earnings, share premium and minority interests.
Carrying value	The value of an asset or liability as it appears in the balance sheet. For each asset or liability, the value is based on either of the amortised cost or fair value principles.
CEO	Chief Executive Officer.
Certificates of deposit (CDs)	Debt issued by banks, savings and loan associations to individual investors with terms ranging from a few months to several years. Longer term CDs tend to bear a higher interest rate. At the expiration of the term, investors may (subject to penalties) withdraw both the principal and the accrued interest.
Change risk	The risk of change not being delivered successfully (delivery risks) and/or that the change deliverables adversely impact the Bank's risk profile (associated risks of change).

Terminology	Definition
Charged off	When all economical avenues to recover an unsecured debt have been exhausted, the Bank permanently closes the loan account, i.e. it is charged off. This final step sits at the end of a time frame within which the Bank attempts to manage the debt's recovery and differs from a 'write down' in terms of its fixed position in time (see Write down).
Collectively assessed for impairment	Impairment is measured collectively where a portfolio comprises assets with a homogeneous risk and where appropriate statistical techniques are available.
Combined Buffer	The combination of the capital conservation buffer, the institution-specific counter-cyclical buffer and the higher of (depending on the institution) the systemic risk buffer, the global systemically important institutions buffer and the other systemically important institution buffer, in each case as applicable to the institution. The systemic risk buffer does not currently apply to the Bank and is not expected to apply over the life of the Plan. The capital conservation buffer will increase by 0.625% of RWAs each year until it reaches the applicable limit of 2.5% (which will be reached in 2019). The counter-cyclical capital buffer is currently set at zero but will increase to 0.5% of RWAs in June 2018 and is expected to rise to 1.0% of RWAs by the end of 2018.
Commercial paper	An unsecured promissory note issued to finance short term credit needs. It specifies the face amount paid to investors on the maturity date.
Commercial real estate (CRE)	Commercial real estate includes office buildings, industrial property, malls, retail stores, shopping centres, multifamily housing buildings, warehouses, and industrial properties.
Common Equity Tier 1	A CRD IV regulatory measure of financial (capital) strength. Common Equity Tier 1 capital is the highest quality of capital and comprises share capital and associated share premium, and general reserves from retained profits. The book values of goodwill and intangible assets as well as other regulatory adjustments, including the full amount of expected loss over provisions, are deducted from Common Equity Tier 1 capital for the purposes of capital adequacy.
Common Equity Tier 1 (CET1) ratio	Common Equity Tier 1 capital divided by Risk Weighted Assets.
Conduct risk	The risk that the Bank's behaviours, offerings or interactions will result in unfair outcomes for customers.
Co-operative Group	The former ultimate parent company of the Bank, pre legal separation (see Legal separation).
Core business	Lines of business that are consistent with the Bank's strategy and risk appetite. This historical classification is no longer used by the Bank following 31 December 2016.
Cost : Income ratio	The proportion of the Bank's revenue which is used to fund its operating costs calculated by dividing operating costs plus operational projects (including the associated depreciation) by operating income excluding losses on asset sales.
Counterparty	In any financial contract, the person or institution entering the contract on the opposite side of the transaction is called a counterparty.
Counterparty credit risk	The risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.
Covered bonds	Debt securities backed by a portfolio of mortgages that are segregated from the issuer's other assets solely for the benefit of the holders of the covered bonds. The Bank may issue covered bonds as part of its funding activities.
Credit conversion factor (CCF)	The CCF is an estimate of the proportion of undrawn commitments expected to have been drawn down at the point of default, and is used within the calculation of EAD.
Credit default swap	An arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. A credit default swap is a contract where the protection seller receives premium or interest related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a credit rating agency.
Credit impairment	Impairment charges on loans and advances to customers.
Credit quality assessment scale	Published by the FSA in accordance with the Capital Requirements Regulations 2006 which maps the external credit rating provided by eligible ECAIs (see External credit assessment institution) to credit quality steps.
Credit quality steps (CQS)	A credit quality step is a credit quality assessment scale as set out in the CRR.
Credit risk	The current or prospective risk to earnings and capital arising from a borrower's failure to meet the terms of any contract with the Bank or their failure to perform as agreed.
Credit valuation adjustments (CVAs)	Adjustments to the fair values of derivative assets to reflect the creditworthiness of the counterparty.
Customer deposits	Money deposited by all individuals and companies that are not credit institutions. Such funds are recorded as liabilities in the Bank's balance sheet under customer accounts or financial liabilities designated at fair value.
Customer loan to deposit ratio	Customer loans divided by customer deposits.
Debt securities in issue	Transferable certificates of indebtedness of the Bank to the bearer of the certificates. These are liabilities of the Bank and include certificates of deposit (see Certificates of deposit), commercial paper (see Commercial paper) and fixed and floating rate notes (see Floating rate notes).
Default	Circumstances in which the probability of default is taken at 100% for the purposes of the calculation of regulatory capital and compliance with Basel II. This is defined as when a borrower reaches a predefined arrears status, where a borrower is considered unlikely to repay the credit obligation in full without the lender taking action.
Delinquency	A customer in arrears is also said to be in a state of delinquency. When a customer is in arrears, their entire outstanding balance is said to be delinquent, meaning that delinquent balances are the total outstanding loans on which payments are overdue (see Arrears).
Derivative	A financial instrument that has a value based on the expected future price movements of the

Terminology	Definition
	instrument or index to which it is linked, such as a share or a currency.
Effective interest rate method (EIR)	The method used to measure the carrying value of certain financial assets or liabilities and to allocate associated interest income or expense over the relevant period.
Encumbrance	Encumbrance is an impediment to use of assets, for example a claim against a property by another party. Encumbrance usually impacts the transferability of the asset and restricts its free use until the encumbrance is removed.
Enhanced Disclosure Task Force (EDTF)	The Enhanced Disclosure Task Force (EDTF) is a private sector group established by the Financial Stability Board (FSB) and composed of members representing both the users and preparers of financial reports. It released a report in October 2012 that included thirty-two recommendations for improving bank risk disclosures in the areas of usability, risk governance and risk management, capital adequacy, liquidity and funding, market risk, credit risk and other risks.
Ethical Policy	The Ethical Policy was developed in conjunction with our customers and sets out how our business values and ethics shape the way we operate and the decisions we take.
European Banking Authority (EBA)	European Banking Authority is a European organisation whose main task is to contribute, through the adoption of Binding Technical Standards (BTS) and Guidelines, to the creation of the European Single Rulebook in banking. The Single Rulebook aims at providing a single set of harmonised prudential rules for financial institutions throughout the EU, helping create a level playing field and providing high protection to depositors, investors and consumers.
Eurozone	The geographical area containing countries whose economies function using the European single currency.
Expected loss	A measure of anticipated loss for exposures captured under an internal ratings based credit risk approach. The expected loss amount is the exposure from a potential default of a counterparty or dilution over a one year period to the amount outstanding at default.
Exposure	The maximum loss the Bank might suffer if a customer (or counterparty) or a group of connected clients default.
Exposure at default (EAD)	A Basel II Pillar 1 parameter, the amount estimated to be outstanding at the time of default. EAD calculated under the standardised approach is always reported post credit conversion factors and provisions. Under the IRB approach the EAD includes undrawn commitments after credit conversion factors.
External audit	An independent opinion, by an external firm, on the Group's financial statements.
External credit assessment institution (ECAI)	An external credit assessment institution is a credit rating agency e.g. Moody's, Standard and Poor's, and Fitch. A credit rating agency (CRA) is a company that assigns credit ratings for issuers of certain types of debt obligations as well as the debt instruments themselves.
External credit rating	A financial indicator of risk, assigned by credit rating agencies, to potential investors in the Bank.
Financial Conduct Authority (FCA)	The FSA was replaced as the UK's financial regulator on 1 April 2013 by two new regulatory bodies: the PRA and the FCA. The FCA is responsible for the regulation of conduct in retail, as well as wholesale, financial markets and the infrastructure that supports those markets.
Financial instruments	Any document with monetary value. Examples include cash and cash equivalents, but also securities such as bonds and stocks which have value and may be traded in exchange for money.
Financial reporting risk	The risk of reputational damage, loss of investor confidence, prejudicing relationship with the regulatory authorities and/or financial loss caused by incorrect financial reporting arising from: the adoption of inappropriate accounting policies; ineffective controls over financial, regulatory, taxation and management reporting; failure to manage the associated risks of changes in financial, regulatory and taxation requirements; and failure to disclose accurate information about the Bank on a timely basis.
Financial Services Authority (FSA)	An independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000, which regulated the financial services industry. It was replaced as the UK's financial regulator on 1 April 2013 by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).
Financial Services Compensation Scheme (FSCS)	The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry. Every firm authorised by the PRA is obliged to pay an annual levy, which goes towards its running costs and compensation payments.
Floating rate notes (FRNs)	Investments with a variable interest rate. The adjustments to the interest rate are usually made every three to six months and are tied (or float) to a certain money market index.
Forbearance	The Bank, for reasons relating to the actual or apparent financial stress of a borrower, grants a concession whether temporarily or permanently to that borrower. A concession may involve restructuring the contractual terms of a debt (such as an extension of the maturity date or any weakening of the security structure or adjustment/non enforcement of covenants) or payment in some form other than cash, such as an equity interest in the borrower.
Foreign exchange (FX)	Foreign exchange is the exchange of one currency for another, or the conversion of one currency into another currency.
Foundation Internal Ratings Based (IRB)	Foundation Internal Ratings Based approach uses standard LGD and EAD parameters but PD is estimated by the Bank.
Fraud risk	The risk that a stakeholder of the Bank uses deception to dishonestly make a personal gain for themselves and/or create a loss for another or the Bank.
FTE	Full time equivalent.
Gap	The Bank's net exposure to variable elements being managed within its market risk, e.g. interest rate

Terminology	Definition
	movements (see Market risk).
General credit risk adjustment	According to EBA Credit Risk Adjustments Regulatory Technical Standard (RTS), a general credit risk adjustment represents provisions that need to cover 'credit risk losses that have not yet materialised' and for which there is 'currently no evidence that a loss event has occurred'. The Bank does not have any general credit risk adjustments; all of the Bank's provisions are classified as specific credit risk adjustments.
Hedging	A technique used by the Bank to offset risks on one instrument by purchasing a second instrument that is expected to perform in the opposite way.
High quality liquid assets (HQLA)	Under European Banking Authority (EBA) rules, assets are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss of value.
HPI	House price index.
Holding Company	On successful completion of the Restructuring and Recapitalisation on 1 September 2017, the Bank bacame a wholly owned subsidiary of a newly incorporated holding company, The Co-operative Bank Holdings Limited. The Holding Company has very limited operations on a stand-alone basis, and at a consolidated level i.e. the Group, the substantial majority of its activity is that of the Bank.
Impaired loans	Loans where the Bank does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.
Impairment provisions	Provisions held on the balance sheet as a result of the raising of a charge against profit from the incurred loss inherent in the lending book. An impairment provision may be either individual or collective. The provision represents management's best estimate of losses incurred in the loan portfolio at the balance sheet date.
Individual Capital Guidance (ICG)	The PRA's statement as to the regulatory capital it expects the Bank to hold. ICG is Pillar 1 plus Pillar 2a.
Individually assessed for impairment	Impairment is measured individually for assets that are individually significant.
Individually significant	Large value loans that exceed a balance threshold established by the Bank, above which it is deemed appropriate to impair accounts on an individual basis.
Information and data risk	The risk associated with theft, loss or misuse of information or the processing of inaccurate information, resulting in customer or financial detriment, and legal or regulatory censure.
Insurance risk	The likelihood that an insured event will occur, requiring the insurer to pay a claim.
Internal audit	Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
Internal capital adequacy assessment process (ICAAP)	The Bank's own assessment, as part of Basel II requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events.
Internal Ratings Based (IRB)	Internal Ratings Based is the approach used for measuring exposure to credit risks. IRB approaches are more sophisticated and risk sensitive than the Standardised approach and may be Foundation or Advanced. IRB approaches may only be used with PRA permission.
Investment grade	A debt security, treasury bill or similar instrument with a credit rating measured by external agencies of AAA to BBB.
Legacy Portfolio	Portfolio of corporate assets inconsistent with the Bank's current business strategy and risk appetite.
Legal risk	The risk of financial or reputational loss for the Bank as a result of inappropriate or inadequate application of laws and regulations to business relationships and processes.
Legal separation	The process by which The Co-operative Bank was legally separated from Co-operative Group.
Leverage ratio	A CRD IV measure, calculated as the ratio of Tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items and derivatives. The leverage ratio is a supplementary measure to the risk based capital requirements and is intended to constrain the build-up of excess leverage in the banking sector.
Liability management exercise (LME)	The process by which the Bank successfully raised £1.2bn of capital in 2013. This was affected by the transfer of preference shares and extinguishment of multiple subordinated liabilities, followed by the recognition of a single tranche of subordinated debt.
LIBOR (London Interbank Offered Rate)	The interest rate participating banks offer to other banks for loans on the London market.
Limited Liability Partnership (LLP)	An LLP provides each of its individual partners protection against personal liability for certain partnership liabilities.
Liquid asset buffer (LAB)	A range of assets from which the Bank can manage its liquidity risk. These assets have relatively short maturity dates.
Liquidity and funding risk	The risk that the Bank's resources will prove inadequate to meet its liabilities as they contractually fall due or as a result of any contingent or discretionary cash outflows that may occur in times of stress. It arises from mismatch of timings of cash flows generated from the Bank's assets and liabilities (including derivatives).
Liquidity coverage ratio (LCR)	A liquidity metric that aims to ensure that a bank has an adequate stock of unencumbered high quality liquid assets to meet its liquidity needs for a 30 calendar day liquidity stress scenario.
Loan-to-value (LTV)	A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Bank calculates residential mortgage LTV on an indexed basis (the value of the property is updated on a quarterly basis to reflect changes in the house price index (HPI)).
Loss emergence period	The time taken, expressed in months, for a loss event on a loan to become observed by the Bank.
Loss given default (LGD)	Loss given default is a Pillar 1 parameter and represents an estimate of the actual loss that would occur in the event of default expressed as a percentage of the EAD.

Terminology	Definition
Market risk	Risk that the values of assets and liabilities, earnings and/or capital may change as a result of changes in market prices of financial instruments. The majority of the Bank's market risk arises from changes in interest rates.
Medium term notes (MTN)	Flexible medium term corporate debt instruments, offered by the Bank to investors through a dealer. Investors can choose from differing maturities, ranging from nine months to 30 years.
Merger	Any combination of two or more business enterprises into a single enterprise. In the Bank, this specifically refers to the merger of the Bank with Britannia Building Society on 1 August 2009 (see Transfer of engagements).
Merger fair value adjustments	Fair value adjustments are the remaining balance sheet adjustments for the assets/liabilities acquired on the merger of the Bank and Britannia Building Society on 1 August 2009.
Merger fair value amortisation	The amortisation of the remaining interest risk related fair value adjustments for the assets/liabilities acquired on the merger of the Bank and Britannia Building Society on 1 August 2009.
Minimum capital requirement	The minimum amount of regulatory capital that the Bank must hold to meet the Pillar 1 capital requirements for credit, market and operational risk.
Mortgage backed securities (MBS)	Securities that represent interests in a group of mortgages. Investors in these securities have the right to cash received from future interest and/or principal mortgage payments. See also RMBS.
MREL (Minimum Requirement for own funds and Eligible Liabilities)	A minimum requirement for capital and liabilities capable of absorbing losses in a resolution scenario, introduced in the EU by the Bank Recovery and Resolution Directive.
Multilateral development bank (MDB)	Supranational institutions which provide financial support and professional advice for economic and social development activities in developing countries. The term MDB typically refers to the World Bank Group and Regional Development Banks.
Net interest margin (NIM)	Net interest margin (the difference between interest received from loans/other assets and interest paid out on deposits/other liabilities) divided by average total assets (being the average of the opening and closing asset balances for the period).
Net present value (NPV)	Net present value represents the present value of the expected future cash in and out flows on an asset or liability.
Net promoter score (NPS)	The net promoter score is an index ranging from -100 to 100 that measures the willingness of customers to recommend a company's products or services to others. It is used as a proxy for gauging the customer's overall satisfaction with a company's product or service and the customer's loyalty to the brand.
Net stable funding ratio (NSFR)	Net stable funding ratio is a liquidity ratio introduced under CRD IV, measuring the proportion of long term assets which are funded by long term or stable funding.
Non-conforming	Loans originated by Platform up to September 2009, and those acquired by Britannia Treasury Services, which did not conform to regular credit standards and all Almost prime lending (see Almost prime).
Non-core business	Non-core business lines include activities not consistent with the strategy of the Bank, are managed for value and are targeted for run down or exit. These non-core lines contain the majority of the impairment risk for the Bank, and predominantly include the Legacy Portfolio (corporate non-core) and Optimum (the closed book of intermediary and acquired loan book assets). This historical classification is no longer used by the Bank following 31 December 2016.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events. This encompasses the effectiveness of risk management techniques and controls to minimise these losses.
Optimum	A closed book of residential mortgages originated through intermediaries and previously purchased mortgage portfolios.
Past due	When a counterparty has failed to make a payment when contractually due.
Payments risk	The risk of loss due to default on a payment due.
Pension risk	The risk to Bank capital and funds from exposure to pension scheme liabilities and risks inherent in the valuation of scheme liabilities and assets.
People risk	The risk associated with inappropriate employee behaviour, inadequate resource (people, capability and frameworks), resulting in customer or financial detriment, and/or legal or regulatory censure.
Physical assets risk	The risk of loss or damage to the Bank's physical assets, such as buildings, fixtures and facilities.
Pillar 1	Pillar 1 capital is a prescribed measure of capital required by a bank representing the minimum capital requirements. The Pillar 1 capital ratio is calculated using regulatory capital and RWA. The total capital ratio must be no lower than 8%.
Pillar 2	Pillar 2 is Pillar 2a plus Pillar 2b.
Pillar 2a	Pillar 2a is additional capital that the Bank is required to hold above Pillar 1, for risks not captured within Pillar 1. The Bank's internal capital adequacy assessment process is an input into this process, but the Bank's Pillar 2a requirement is ultimately set by the PRA.
Pillar 2b	Pillar 2b is the capital that must be held by the Bank in a severe but plausible stress in order to ensure that it can continue to meet its Pillar 1 plus Pillar 2a requirements. It is known as the Capital Planning Buffer (CPB) until 31 December 2015, and became the PRA buffer from 1 January 2016.
Pillar 3	Pillar 3 covers market discipline. Market discipline takes the form of standard disclosure requirements that are intended to provide information about a bank's exposure to risks and risk assessment processes. The aim is to provide a means of disclosure comparable between banks.
Platform	The Bank's channel for intermediary mortgage originations.
Potential future exposure (PFE)	An add-on to derivative exposure for potential future exposure.
Preference shares	The preference shares are fixed interest shares, non-cumulative and irredeemable.
Prime	Prime mortgages are mainstream residential loans, which typically have a higher credit quality and fit

Terminology	Definition
	standard underwriting processes. As such, they are likely to have a good credit history and pass a standard affordability assessment at the point of origination.
Private finance initiatives (PFIs)	A method of providing funds for major capital investments where private firms are contracted to complete and manage public projects. Under a private finance initiative the private company, instead of the government, handles the up-front costs.
Probability of default (PD)	The likelihood that a loan will not be repaid and will fall into default. PD may be calculated for each customer who has a loan (normally applicable to wholesale customers) or for a portfolio of customers with similar attributes (normally applicable to retail customers). To calculate PD, the Bank assesses the credit quality of borrowers and other counterparties and assigns them an internal risk rating.
Probability of possession given default (PPD)	Probability of possession given default is the probability that a proportion of mortgages (secured accounts) will go to repossession.
Product risk	A type of mortgage pipeline risk that occurs when a lender has an unusual loan in production or inventory but does not have a sale commitment at a prearranged price.
Provisions	The level of provision that has been raised by the Bank against its exposures to provide for unrecoverable losses from discrete categories or individual customers.
Prudent valuation	A deduction under CRD IV from Common Equity Tier 1 capital where the prudent value financial assets measured at fair value is materially lower than the fair value recognised in the Annual Report.
Prudential Regulation Authority (PRA)	The FSA was replaced as the UK's financial regulator on 1 April 2013 with two new regulatory bodies: the PRA and the FCA. The PRA, a subsidiary of the Bank of England, is responsible for promoting the stable and prudent operation of the financial system through regulation of all deposit-taking institutions, insurers and investment banks.
Prudential Regulation Authority (PRA) Buffer	Capital that should be held by a bank over and above the level of capital recommended as its ICG and over and above the Combined Buffer required of the bank, set by the PRA as part of its firm-specific supervisory assessment process, which should be of a sufficient amount to allow the bank to continue to meet its regulatory obligations even in adverse circumstances, after allowing for realistic management actions that a bank could, and would, take in a stress scenario.
PV01	Daily calculation of the effect on the net present value (NPV) of Treasury portfolios to both parallel and specific point of yield curve stress testing (i.e. non-linear yield curve shifts). Analysis includes daily parallel shifts in yield curve rates of +/ – 100 bps with the resultant change in NPVs representing the potential change in portfolio values.
Qualifying revolving retail exposures (QRRE)	Qualifying revolving retail exposures represents exposures with fluctuating debit or credit balances (i.e. overdrafts or credit cards).
Ratings based method	The calculation method used by the Bank for exposures to securitisations as defined under the IRB approach. The approach uses risk weightings based on ECAI ratings, the granularity of the underlying pool and the seniority of the position.
Recovery and Resolution Plan	Under the requirements of the 2014 E.U. Banking Recovery and Resolution Directive (BRRD), all UK banks, building societies and PRA-designated investment firms are required to produce Recovery and Resolution Plan documents. Transposition of the Directive in the U.K. has been achieved through a combination of HM Treasury legislation and rules made by the PRA and the FCA, with The Bank of England acting as the domestic resolution authority. The regulatory framework provides the authorities with a set of tools and powers for dealing with failing banks, and requires banks to facilitate this process by providing information for recovery and resolution planning purposes as well as meeting resolvability requirements. Recovery Plans assess and document firm recovery options available to recover financial strength in stress situations, either market wide or idiosyncratic. Resolution Plans provide the authorities with sufficient information to enable them to determine a detailed roadmap to resolve a failed financial institution, without resorting to government (effectively taxpayer) support.
Regulatory capital	The capital that the Bank holds in accordance with the PRA handbook.
Regulatory risk	The risk that the Bank and its subsidiaries breach the letter and spirit of relevant laws, regulations, codes of practice or standards of good market practice.
Remuneration Code	The Remuneration Code, issued by the Financial Services Authority, sets out the standards that banks, building societies and other financial institutions have to meet when setting pay and bonus awards for their staff. It aims to ensure that firms' remuneration practices are consistent with effective risk management.
Renewable energy and asset finance (REAF)	These relate to Corporate assets which fall under the definition of renewable energy and asset finance.
Repo/Reverse repo	A repurchase agreement that allows a borrower to use a financial security as collateral for a cash loan at a fixed rate of interest. In a repo, the borrower agrees to sell a security to the lender subject to a commitment to repurchase the asset at a specified price on a given date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.
Reputational risk	The risk associated with an issue which could in some way be damaging to the brand of the Bank either through Its strategic decisions, business performance, an operational failure or external perception.
Residential mortgage backed securities (RMBS)	Securities that represent an interest in an underlying pool of Retail residential mortgages.
Restructuring and Recapitalisation	The Restructuring and Recapitalisation on 1 September 2017 included the following steps: • the transfer of all the Bank's ordinary shares to the Holding Company in exchange for A shares in the Holding Company implemented by way of the Members' Scheme. As a result of the Restructuring and Recapitalisation the Holding Company now owns 100 percent of

Terminology	Definition
	the Bank; • the exchange of all Subordinated Notes held by Subordinated Noteholders (other than the 2023 Notes held by Retail Noteholders) for A shares in the Holding Company and the Mandatory Cancellation of the 2023 Notes held by Retail Noteholders in consideration of the payment by the Bank of the Retail Cash Consideration to Retail Noteholders; and • the subscription of an aggregate £250m of A shares, the proceeds of which, together with the Subordinated Notes, were used by the Holding Company to subscribe for shares in the Bank.
Retail	The segment that comprises customer focused products and services for individuals, sole traders and small partnerships. This includes mortgages, credit cards, consumer loans, current accounts and savings products.
Return on equity	The ratio of profit for the year (after tax) to shareholders equity, expressed as a percentage.
Return on risk weighted exposure amount (RRWEA)	The return on Bank's assets and exposures weighted according to risk. The measure is one of the performance metrics set by the Remuneration and Appointments Committee when assessing targets in the Long Term Incentive Plan.
Risk appetite	The articulation of the level of risk that the Bank is willing to accept (or not accept) in order to safeguard the interests of the members whilst achieving its business objectives.
Risk grade	Credit risk score or output from a rating system or model.
Risk weighted amount	Risk weightings are established in accordance with Basel II as implemented by the FSA. Risk weighted amounts are the carrying value of the Bank's assets, adjusted by the risk weightings, to reflect the degrees of risk they represent.
Risk weighted assets (RWAs)	Amount of exposure deemed 'at risk' according to PRA prescribed calculation for Pillar 1 capital requirement. RWAs are required to be calculated for the Bank to provide for three types of risk: (i) Credit risk; (ii) Market risk; and (iii) Operational risk. The Bank considers market risk within credit risk. The Bank's capital ratios are calculated from the sum of the three RWA categories.
Secured lending	Lending in which the borrower pledges retail or commercial property as collateral for the loan, which then becomes a secured debt owed to the Bank. In the event that the borrower defaults, the Bank may take possession of the asset used as collateral and may sell it to regain some or the entire amount originally lent to the borrower.
Securities financing transaction (SFT)	Loaning of a stock, derivative, or other security to a third party (i.e. repurchase agreements).
Securitisation	A process by which a portfolio of retail mortgages is used to back the issuance of new securities by an SPE (see Special purpose entities). The Bank has established securitisation structures as part of its funding and capital management activities.
Securitisation position	An exposure to a securitisation.
Senior unsecured debt	Debt that has priority ahead of all other unsecured or subordinated debt for payment in the event of default.
Slotting	The regulatory defined approach used for rating the risk level of Corporate lending using a broad scope of financial, political and transactional factors. The regulatory slotting categories are listed as follows: • 'Standardised' businesses lack sufficient information upon which detailed credit analysis can be undertaken for which models have yet to be developed; • 'Strong' businesses have little competition, high demand, significant governmental support and enforceable collateral; • 'Good' businesses have limited competition, stable demand, good governmental support and enforceable collateral; • 'Satisfactory' businesses have a broad competition base with limited levels of demand, governmental support and collateral; • 'Weak' businesses operate at a disadvantage to competition, display a declining trend of demand, with no governmental support and no clear collateral; and • 'Default' businesses are considered unlikely to repay their credit obligations (see Impaired loans).
Slotting approach	An approach applied to specialised lending exposures to calculate Pillar 1 capital requirement and EL. For each of five risk categories that may be assigned to a specialised lending customer, a set percentage based on the slotting category is applied to the account exposure value to derive capital requirement and expected loss.
Small and medium enterprises (SME)	Small and medium sized businesses engaging with the Bank as customers.
Sterling Over Night Index Average (SONIA)	Sterling Over Night Index Average (SONIA). Yield curves used by the Bank for swap arrangements. These are based on overnight indexed rates.
Sovereign debt	Bonds issued by and loans given to central banks and local governments, governmental bodies and other government-related bodies.
Sovereign exposure	The Bank's exposure to the total financial obligations incurred by all governmental bodies of any nation.
Special purpose entities (SPEs)	Entities that are created to accomplish a narrow and well defined objective. For the Bank this includes: • various securitisation transactions in which mortgages were sold to SPEs. The equity of these SPEs is not owned by the Bank; and • Covered bond Limited Liability Partnerships created in order to act as guarantors for issues of covered bonds.
Specialised lending	A specific Basel portfolio type which are Corporate exposures which possess the following characteristics: 1. The exposure is to an entity which was created specifically to finance and/or operate physical

Terminology	Definition
	assets; 2. The contractual arrangements give the lender a substantial degree of control over the assets and the income that they generate; and 3. The primary source of repayment of the obligation is the income generated by the assets being financed, rather than the independent capacity of a broader commercial enterprise.
Specific credit risk adjustment	According to EBA Credit Risk Adjustments Regulatory Technical Standard (RTS), a general credit risk adjustment represents provisions that need to cover 'credit risk losses that have not yet materialised' and for which there is 'currently no evidence that a loss event has occurred', and that 'all other amounts shall be specific credit risk adjustments'. However, under IAS 39 banks are not permitted to book (individually assessed or collective) loss provisions unless there is 'objective evidence that a loss even has occurred'. Therefore, all of the Bank's provisions are classified as specific.
SREP	Supervisory review and evaluation process.
Standardised	Exposure classifications available under CRR for assets not rated using IRB models for the purposes of capital calculation.
Standardised approach	Standardised approach is the basic method of calculating Pillar 1 capital requirements based on supervisory defined factors which are applied to exposure values based on external credit ratings of the customer.
Standardised category	Customers who have not defaulted, and for the purposes of the capital calculations are not rated with the regulatory approved rating model.
Standard variable rate (SVR)	A variable and basic rate of interest charged on a mortgage. This may change in reaction to market conditions resulting in monthly repayments going up or down.
Statutory loss	The loss stated in accordance with the requirements of the UK Companies Act 2006, which incorporates the requirements of International Financial Reporting Standards (IFRS).
Strategic asset review	The process by which the Bank centrally monitors risk on its corporate loan assets in line with agreed strategy and governance parameters.
Strategic and business risk	Risk arising from changes to the Bank's business and the environment in which it operates, specifically the risk of not being able to carry out the Bank's business plan and desired strategy.
Stress testing	Assessing the risk of a portfolio using a "what if" approach to represent various economic changes, for example, a rise in unemployment.
Swaps	An agreement between the Bank and a counterparty in which one stream of future payments is exchanged for another stream, based on a specified principal amount. For example, interest rate swaps often involve exchanging a fixed receipt for a floating receipt, which is linked to an interest rate (most often LIBOR). The Bank's use of swaps helps to manage periodic market risk on its financial instruments.
Technology risk	The risk of financial and non-financial impacts resulting from the lack of effective IT systems operability.
Term deposit	A deposit balance that cannot be withdrawn before a date specified at the time of deposit.
Third party supplier risk	The risk of loss or reputational damage to the Bank as a result of the actions or inactions of a third party supplier.
Threshold Conditions	The Threshold Conditions for which the PRA and FCA are responsible in relation to the Bank, which set out the minimum standards to be met relating to financial and non-financial resources, including capital, risk management, liquidity, and technology, are set out in the FSMA.
Tier 1	A regulatory measure of financial (capital) strength. Tier 1 is divided into Core Tier 1 and other Tier 1 capital. Core Tier 1 capital comprises share capital and associated share premium, and general reserves from retained profits. The book values of goodwill and intangible assets are deducted from Core Tier 1 capital and other regulatory adjustments may be made for the purposes of capital adequacy. Qualifying capital instruments such as perpetual subordinated bonds are included in other Tier 1 capital.
Tier 1 ratio	Tier 1 capital divided by RWAs.
Tier 2	Tier 2 capital comprises the Bank's property valuation reserve, preference shares, qualifying subordinated notes and collective impairment provisions (for exposures treated on a Basel II standardised basis). Certain regulatory deductions may be made for the purposes of assessing capital adequacy.
Transfer of engagements	On 1 August 2009, Britannia Building Society merged with The Co-operative Bank plc by a transfer of engagements between the Building Society and the Bank under the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 (see Merger).
Treasury segment	The treasury segment's responsibilities usually include capital management, risk management, strategic planning and investor relations.
Unaudited	Financial information that has not been subjected to the audit procedures undertaken by the Group's external auditor.
Unfunded pension scheme	Pension scheme which has liabilities and no assets. The Bank will pay the liabilities of the scheme as they fall due.
Unsecured lending	Lending for which there is no collateral for the loan.
Watchlist	A list of counterparties drawn up by the Bank once it has elected to closely monitor the performance of loans subject to significant credit risk.
Wholesale	Wholesale banking is the provision of loans to corporate customers and institutional customers and services to other banks and financial institutions.
Write down	After an advance has been identified as impaired and is subject to an impairment allowance, the stage may be reached whereby it is concluded that there is no realistic prospect of further recovery.

Terminology	Definition
	Write downs will occur when, and to the extent that, the whole or part of a debt is considered irrecoverable. This action can occur at any time in the debt's life (see Charge off).
Write off	When all economical avenues to recover an unsecured debt have been exhausted, the Bank permanently closes the loan account, i.e. it is written off. This final step sits at the end of a time frame within which the Bank attempts to manage the debt's recovery.