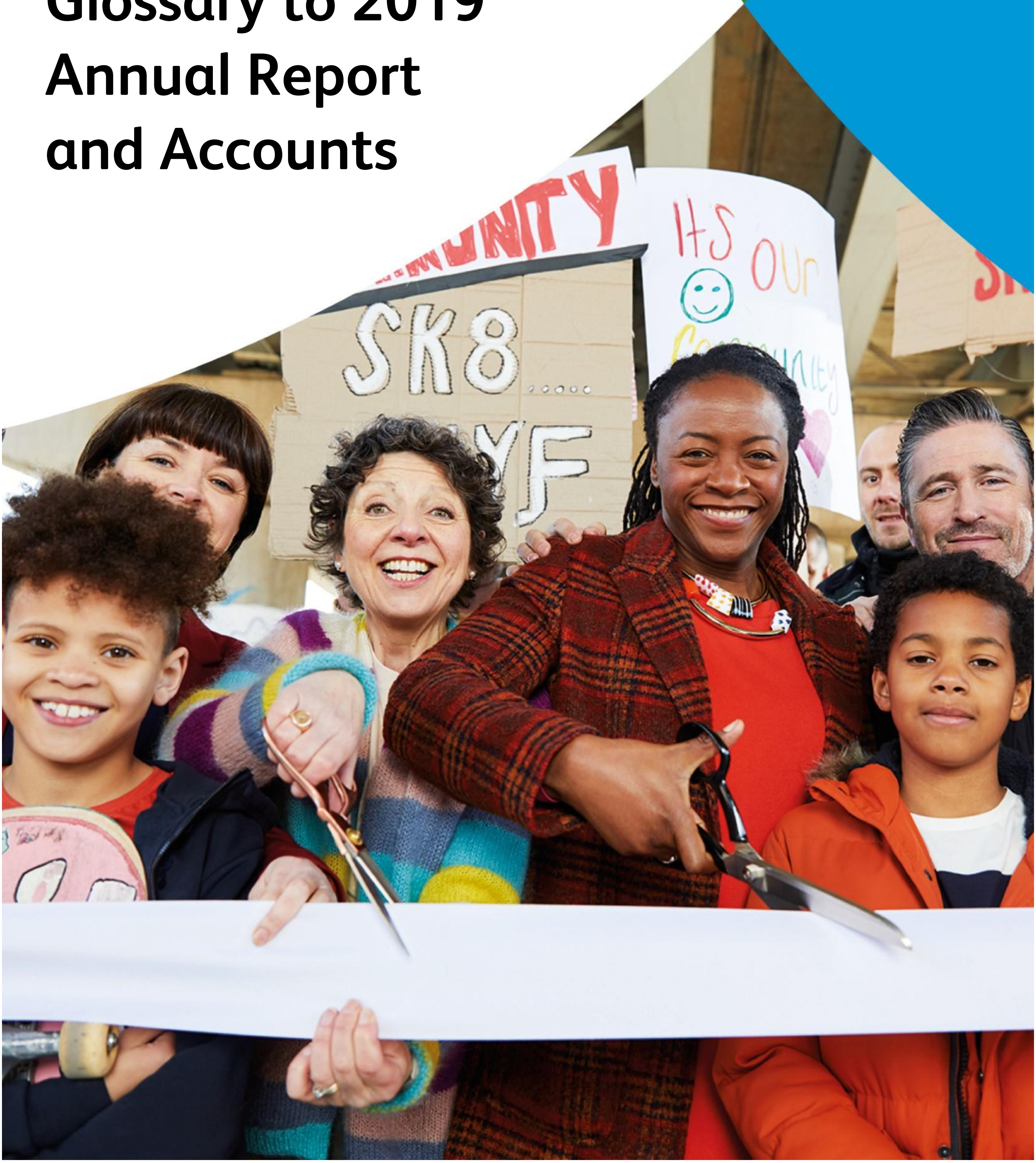
The co-operative bank
for people with purpose

Glossary to 2019 Annual Report and Accounts



GLOSSARY

The following glossary defines terminology used within the Annual Report and Accounts of The Co-operative Bank Holdings Limited, The Co-operative Bank Finance p.l.c. and The Co-operative Bank p.l.c. 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 provided below as this is the operating level of the Group.

Basel	The Basel Committee on Banking Supervision's statement of best practice that defines the methods by which firms should calculate their regulatory capital requirements to retain sufficient capital to protect the financial system against unexpected losses. Enacted in the EU through the Capital Requirements Directives.
Basis points (bps)	One hundredth of one percent (0.01 %), so 100 basis points is 1 %. Used in quoting movements in interest rates or yields on securities.
Capital Requirements	Capital required under Pillar 1. Capital Requirements are 8 % of Risk Weighted Assets (of which 4.5 % must be Common Equity Tier 1 Capital).
Capital Requirements Directive (CRD IV)	European legislation giving force to the Basel regulatory capital framework in the UK. The latest legislation is commonly referred to as CRD IV, came into effect from 1 January 2014 and comprises the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD).
Common Equity Tier 1 (CET1) Capital	The highest quality regulatory capital resources, comprising retained earnings less regulatory adjustments as defined under CRD IV.
Common Equity Tier 1 Capital Ratio	The ratio of Common Equity Tier 1 Capital to Risk Weighted Assets.
Credit risk	The risk of financial loss arising from a failure of a customer or counterparty to settle their financial and contractual obligations as they fall due.
Credit value adjustment (CVA)	Adjustments to the fair values of derivative assets to reflect the creditworthiness of the counterparty.
Colleague engagement	Engagement level for employees is measured based on responses to questions covering five areas. This is a measure of colleague sentiment based on their advocacy, confidence, commitment, pride and willingness to give discretionary effort that supports productivity and performance.
Customer net interest margin (NIM)	Total net interest income divided by average customer assets for the period.
Derivative	A financial instrument that has a value based on the expected future price movements of the underlying instrument or index to which it is linked, such as a share or a currency.
Effective interest rate (EIR)	The EIR is the rate that is actually earned on a financial asset or liability over its expected life, taking into account certain fees, costs, discounts and premiums. It is used to calculate the amortised cost of financial instruments and to recognise interest receivable or payable over its expected life.
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 to provide 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.
Expected credit loss (ECL)	The weighted average credit losses, with the probability of default (PD) as the weight.
Exposure at default (EAD)	The amount expected to be owed at the time of default.
Fair value through profit and loss (FVTPL)	The classification of instruments that are measured at fair value, with changes in fair value recognised within the income statement.
Fair value through other comprehensive income (FVOCI)	The classification of instruments that are measured at fair value, with changes in fair value recognised within comprehensive income, except changes related to credit risk which are recognised in the income statement.
Financial Conduct Authority (FCA)	The UK conduct regulator which is responsible for the regulation of conduct in retail, as well as wholesale, financial markets and the infrastructure that supports those markets. The FCA's objective is to protect consumers, promote competition and enhance market integrity.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The internal assessment of the levels of liquidity that need to be held to meet regulatory liquidity requirements.
Internal Capital Adequacy Assessment Process	The internal assessment of the levels of capital that need to be held to meet regulatory capital requirements.
Liquidity Coverage Ratio (LCR)	A liquidity metric which aims to ensure that a firm maintains an adequate level of liquidity to meet its needs for a 30 calendar day time horizon under a severe stress scenario.
Loss given default (LGD)	The expectation of the extent of loss on a defaulted exposure.

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).
MREL qualifying	Resolution authorities, including the Bank of England in the UK, impose minimum requirement for own funds and eligible liabilities (MREL) requirements on supervised banks. MREL-qualifying debt consists of own funds and certain debt in issue from a bank group's wholesale liabilities. Therefore, if a bank fails and goes into resolution, the MREL acts as a buffer to absorb losses and to provide new capital to the failing bank.
Medium-term notes (MTN)	Corporate notes offered by a company to investors through a dealer. Investors can choose between differing maturities ranging from 9 months to 30 years.
Net interest income	The difference between the interest received on assets and interest paid on liabilities (customer deposits).
Operating cost:income ratio	Operating cost:income ratio is calculated as operating costs (staff and non-staff) and continuous improvement project expenditure divided by operating income excluding losses on asset sales.
Positive mortgage net lending	Mortgage completions less mortgage redemptions and capital repayments.
Prudential Regulation Authority (PRA)	The UK prudential regulator which is part of the Bank of England and alongside the FCA has responsibility for the oversight of relevant financial institutions. The PRA's objective is to promote the safety and soundness of regulated firms.
Probability of default (PD)	The likelihood of a borrower defaulting, either on a 12 month PD for stage 1 assets or on a lifetime PD for stage 2 and 3 assets.
PoS	PoS is an abbreviation for point of sale, which refers to any place where a transaction can happen, whether it's for a product or service.
Purchased or originated credit impaired (POCI)	Purchased or originated financial assets that are credit-impaired on initial recognition. POCI assets always carry an impairment for lifetime expected credit loss, irrespective of the payment status of the loan.
PV01	Measures the sensitivity of the net present value (NPV) to a one basis point (1bp) parallel shift in interest rates.
Risk appetite	The level of risk that the Bank is willing to take (or not take) in order to safeguard the interests of stakeholders whilst achieving its business objectives.
Risk Weighted Assets	A regulatory measure that adjusts the value of assets to reflect their level of risk when calculating capital requirements. 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.
Sectionalisation	A sectionalised pension fund is a scheme that contains two or more 'sections' that are formally separate for funding and benefit purposes.
Securitisation	A process by which a group of assets are aggregated into a pool which is used to back the issuance of debt securities in issue. The assets are transferred to a special purpose vehicle which then issues the securities backed by the assets. Securitisation vehicles are established by the Group as part of its funding and capital management activities.
Small and medium-sized entities (SME)	Small and medium-sized businesses engaging with the Bank as customers.
Sterling overnight interbank average (SONIA)	Yield curves used by the Bank for swap arrangements. These are based on overnight indexed rates.
Stress testing	Assessing the risk of a portfolio using a 'what if' approach to represent various economic changes e.g. a rise in unemployment.
Term deposit	A deposit balance that cannot be withdrawn before a date specified (without penalty) at the time of deposit.
Term Funding Scheme (TFS)	A scheme launched by the Bank of England designed to grow lending to households and businesses by providing term funding to participating banks and building societies at rates close to the Bank Rate.
Tier 1 Capital	The total of Common Equity Tier 1 and Additional Tier 1 Capital (note that the Group does not currently hold Additional Tier 1 Capital).
Tier 2 Capital	Tier 2 capital is the secondary layer of a bank's capital within its overall capital resources. It has lower loss-absorbing capacity than Tier 1 because it ranks above equity in the creditor hierarchy.
Total Capital	The total capital resources less regulatory adjustments.
Unfunded pension scheme	Pension scheme which has liabilities and no assets. The Bank will pay the liabilities of the scheme as they fall due.
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 funding	The funding that is available between banks and other financial or commercial institutions. Examples of wholesale funding include covered bonds, deposits and government guarantees.