

The **co-operative** bank
for people with **purpose**

Glossary to 2020 Annual Report and Accounts



OUR CUSTOMER AND COLLEAGUES
HELPED US TO RAISE

£347K

FOR CENTREPOINT
WITH A TOTAL OF OVER
£1.7 MILLION
RAISED SINCE 2017



WE DONATED ALMOST

£100K

TO
**106 LOCAL
COMMUNITY
PROJECTS**
DURING THE PANDEMIC



**WE'VE ACHIEVED
ZERO WASTE
TO LANDFILL**



**WE'VE RAISED
AWARENESS OF
ECONOMIC ABUSE
IN PARTNERSHIP
WITH REFUGE**

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.

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| Banking Standards Board (BSB) | The Banking Standards Board is an independently led body that promotes high standards of behaviour and competence across the UK banking industry. The annual survey run by the BSB is an exercise designed to inform, support and challenge banks and building societies committed to managing their cultures and raising standards of behaviour and competence across the sector. |
| 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. |
| Capability and Innovation Fund | The purpose of the Capability and Innovation Fund is to encourage eligible bodies to develop and improve their capability to compete in the provision of banking services to SMEs, and develop and improve the financial products and services which are available to SMEs. It is managed by Banking Competition Remedies Limited. |
| 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 as amended by CRD V) | European legislation giving force to the Basel regulatory capital framework in the UK. CRD IV came into effect from 1 January 2014 and comprises the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD). CRD V introduces further measures, implementing Basel III's enhanced Pillar 2 approach to the management and control of interest rate risk in the banking book (IRRBB). It also introduces a number of measures designed to further harmonise micro- and macro-prudential supervision and to introduce greater proportionality in prudential requirements. |
| 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. |
| 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 exactly discounts estimated cash flows (excluding credit losses) to zero through the expected life of the financial instrument. 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 P&L (FVTPL) | The classification of instruments that are held for trading or for which the business model is to manage the financial asset on a fair value basis i.e. to realise the asset through sales as opposed to holding the asset to collect contractual cash flows. This category applies if the requirements to be classified as amortised cost or FVOCI are not met. Equity instruments are normally measured at FVTPL. All derivatives would be classified as at FVTPL. |
| Fair value through other comprehensive income (FVOCI) | The classification for instruments for which there is a dual business model i.e. the business model is achieved by both holding the financial asset to collect the contractual cash flows and through the sale of the financial assets. The characteristics of the contractual cash flows of instruments in this category must be solely payments of principal and interest. On initial recognition, an irrevocable election (on an instrument-by-instrument basis) may be made to designate an equity instrument at FVOCI. This option only applies to instruments that are not held for trading and are not derivatives. |

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| 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. |
| HM Treasury Women in Finance Charter | The Women in Finance Charter is a commitment by HM Treasury and signatory firms to work together to build a more balanced and fair financial services industry. The core Charter pledges for promoting gender diversity comprise having one member of our senior executive team who is responsible and accountable for gender diversity and inclusion; setting internal targets for gender diversity in our senior management; publishing progress annually against these targets in reports on our website; having an intention to ensure the pay of the senior executive team is linked to delivery against these internal targets on gender diversity. |
| 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 (ICAAP) | 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)). |
| 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. |
| MREL (Minimum Requirement for own funds and Eligible Liabilities) | 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. |
| Net interest income | The difference between the interest received on assets and interest paid on liabilities (customer deposits). |
| 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. |
| 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. |
| Optimum | A closed book of residential mortgages originated through intermediaries and previously purchased mortgage portfolios. |
| 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. |
| Purchased or originated credit impaired (POCI) | Purchased or originated financial assets that are credit-impaired on initial recognition. |
| 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. |

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| Senior Managers and Certification Regime (SMCR) | The Senior Managers and Certification Regime (SMCR) for banks and insurers was launched in 2016. Central to this was a requirement that the most senior decision-makers in firms should have clearly assigned responsibilities and be accountable for actions within their remit. |
| 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. |
| Task Force on Climate-related Financial Disclosures (TCFD) | The Financial Stability Board established the TCFD to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. |
| 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. |
| Term Funding Scheme with additional incentives for SMEs (TFSME) | Provides four-year funding with a base borrowing allowance of at least 10 % of participants' stock of customer lending as at 31 December 2019 at interest rates at, or very close to, bank base rate. Additional funding is then available for banks that increase lending over a defined period, especially to small and medium-sized enterprises (SMEs). Banks can draw down TFSME funding until 31 October 2021 under the current terms. The intention of the scheme is to support passing back the reduction of base rate from 0.75 % to 0.10 % onto customers and to provide a low-cost source of funding to banks to support additional lending to the real economy. It provides additional incentives for banks to support lending to SMEs that typically bear the brunt of contractions in the supply of credit during periods of heightened risk aversion and economic downturn. |
| 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). |
| Total Capital | The total capital resources less regulatory adjustments. |
| UNEP FI Principles for Responsible Banking | United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development. UNEP FI works with members – banks, insurers, and investors – and supporting institutions to help create a financial sector that serves people and planet while delivering positive impacts. The Principles for Responsible Banking are a unique framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement. |
| 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. |