Glossary to 2024 Annual Report and Accounts

The co-operative bank

Ethical then, now and **always**

GLOSSARY

The following glossary defines terminology used within the Annual Report and Accounts of The Co-operative Bank Holdings p.l.c., 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.

Asset Quality Ratio (AQR)	Measures the loan impairment charge for the year as a percentage of average loans and advances to customers.
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 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.
Consumer Price Index (CPI)	An index that measures the average change in price over time of a UK-based market basket of consumer goods and services.
Cost:income ratio	Cost:income ratio is calculated as operating expenses plus net customer redress charges divided by operating income.
Covered bond	Debt securities that are backed by an asset pool that are segregated from the issuer's other assets solely for the benefit of the holders of the covered bonds. The asset pool provides security in the event the issuer defaults
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) / Debit value adjustment (DVA)	Adjustments to the fair values of derivative assets to reflect the creditworthiness of the counterparty (credit) or the Bank (debit).
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.
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 adjustment for hedged risk (FVAHR)	An accounting adjustment made to the carrying value of financial instruments (typically fixed rate mortgages or customer deposits) that are hedged against interest rate risk using interest rate swaps.
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.
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.

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.
Floating Rate Notes (FRNs)	Debt securities that pay a variable rate of interest.
Gross Domestic Product (GDP)	A measure that includes the value created through the production of goods and service in a national economy.
Guaranteed Minimum Pension (GMP)	A defined benefit pension scheme that opted out of the State Earnings Related Pension Scheme (SERPS) between 1978 and 1997 must guarantee to pay a minimum level of benefits at least equal with the income a member would have received if they had been contracted into SERPS, which was a scheme designed to give workers the chance to top up their state pension (later referred to as State Second Pension). This minimum level of benefits is known as a member's Guaranteed Minimum Pension (GMP). GMPs remain unequal in some cases due to historical differences in the State Pension ages for men and women. GMP equalisation is the process by which GMPs will be adjusted to remove the impact of any inequality after 1990, when the relevant legislation was passed.
House Price Index (HPI)	An index that captures changes in house prices monthly or annually, using data from UK-based residential housing transactions.
Internal Capital Adequacy Assessment Process (ICAAP)	The internal assessment of the levels of capital that need to be held to meet regulatory capital requirements.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The internal assessment of the levels of liquidity that need to be held to meet regulatory liquidity 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.
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 given default (LGD)	The expectation of the extent of loss on a defaulted exposure.
Minimum Requirement for own funds and Eligible Liabilities (MREL)	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 (NII)	The difference between the interest received on assets and interest paid on liabilities (customer deposits).
Net interest margin (NIM)	Total net interest income divided by average interest-earning assets for the period.
Optimum	A closed book of residential mortgages originated through intermediaries and previously purchased mortgage portfolios.
Pension "buy-in"	A buy-in is an insurance policy that covers a specified proportion of a pension scheme's liabilities, such as the pensioners' in-payment. A full buy-in covers all of a pension scheme's liabilities. The policy pays an income equal to the benefits of the members covered and therefore removes the risk of there being insufficient assets to meet those future liabilities.
Post model adjustment (PMA)	Adjustments made to model outputs, typically in the context of Expected Credit Loss estimation, to account for limitations in those models to adequately quantify risk.
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.
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.
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.
Residential Mortgage-Backed Security (RMBS)	Debt securities issued by securitisation vehicles that have been collateralised with mortgage exposures, providing a relatively high degree of credit protection.
Return on Tangible Equity	Measures profit after tax as a percentage of the average tangible equity.
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 (RWAs)	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.
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.
Special Purpose Entities (SPEs)	Legal entities set up to meet specific company purposes. In the Group’s context these typically refer to securitisation entities, to which mortgage balances are sold and from which debt securities are issued, for the ultimate aim of either passing on the risk and reward of mortgage balances to external investors, or to create high credit quality instruments which can be used for liquidity or collateral purposes.
Standard Variable Rate (SVR)	A variable rate of interest typically applied to mortgage balances that have reached the end of an introductory fixed rate term. SVRs typically rise and fall in line with an underlying reference rate (commonly the Bank of England base rate).
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 was then available for banks that increased lending over a defined period, especially to small and medium-sized enterprises (SMEs). Banks could draw down TFSME funding until 31 October 2021. The intention of the scheme was 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 provided 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.
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.