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## WRITTEN NOTICE: IRB PERMISSION

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**To:** The Co-operative Bank Holdings Limited (FRN:788731) (the “company”)

**Of:** 1 Balloon Street  
Manchester,  
United Kingdom, M60 4EP

**Date:** 26 November 2021

### DECISIONS

1. On 1 January 2008, the Co-operative Bank plc. (FRN: 121885) (the “firm”) was granted an IRB waiver under s138A of the Financial Services and Markets Act 2000 (the “Act”). In accordance with Waivers Transitional Provisions 2.1(2) of the PRA Rulebook the firm’s IRB waiver took effect on 1 January 2014 as a permission granted by the PRA under Chapter 3, Title II, Part Three of Regulation 575/2013 of the European Parliament and of the Council of 26th June 2013 on prudential requirements for credit institutions and investment firms. That permission applied on the consolidated basis of the Co-operative Bank plc. The company has been granted the permission on a consolidated basis to calculate its risk weighted exposure amounts using the Internal Ratings Based Approach (“IRB Approach”) on the terms and conditions set out in Annex 1(the “IRB Permission”).
2. If the company ceases to comply with the conditions for granting of this IRB Permission set out in Chapter 3, Title II, Part Three of the CRR or the terms and conditions of the IRB Permission set out in Annex 1, the PRA will re-consider the terms and conditions of the IRB Permission and the requirements relevant to it, including a revocation of the IRB Permission in whole or in part.
3. The IRB Permission takes effect on 26 November 2021
4. Details of the IRB Permission will be published.
5. Annex 3 summarises any previous variations of the IRB Permission.

This decision was taken by SRPC



## ANNEX 1

### THE INTERNAL RATINGS BASED PERMISSION

#### Legal Entities

1. The IRB Permission means that the company may apply the internal ratings based approach to the legal entities in its calculation of own funds requirements on the following basis:
  - a. **on its consolidated situation in respect of;**
    - The Co-operative Bank plc
    - Second Roodhill Leasing Limited
    - Third Roodhill Leasing Limited
    - Fourth Roodhill Leasing Limited
    - Mortgage Agency Services Number 1 Limited
    - Mortgage Agency Services Number 4 Limited
    - Mortgage Agency Services Number 5 Limited
    - Platform Funding Limited
2. The company must calculate its risk-weighted exposure amounts for the categories of exposure identified in Table 1 of Schedule 1 (with the exception of the permanent exemptions and any exposures still subject to sequential implementation) using the IRB Approach, to the extent, in the manner and subject to the conditions set out in this IRB Permission, and in accordance with Table 1 in Schedule 1.

#### Ratings Systems

3. The company is permitted to use the ratings systems and internal models approaches to equity exposures (together the "Ratings Systems") as specified in the documentation contained in the firm's IRB case file (reference ACTS 32802) comprising its IRB application documentation, as modified by all changes and specifications notified to the firm and the company by the PRA, including those specified in this IRB Permission Notice, all changes and extensions notified by the firm and the company and accepted by the PRA, and all material changes and extensions for which permission has been granted by the PRA noted in Annex 3.

#### Permanent partial use

4. The company is permitted to apply the Standardised Approach for the exposures listed in Table 2 in Schedule 1 in accordance with art 150 of the CRR.

#### Reversion to the Standardised Approach under art 149

5. This paragraph does not apply to this IRB Permission.



### **Reversion to CRR art 151(8) LGD/Conversion factors under CRR art 149**

6. This paragraph does not apply to this IRB Permission.

### **Sequential implementation**

7. This paragraph does not apply to this IRB Permission.

### **Treatment by exposure class under CRR article 151**

8. The company is permitted to use the approaches in Article 155(3) and (4) for equity exposures as set out in Table 1 of Schedule 1.
9. The company is permitted to use its own estimates of LGDs and conversion factors for the exposure classes as set out in Table 1 of Schedule 1.

### **Maturity under art 162 of the CRR**

10. To the extent that the company does not have permission to use own estimates of LGDs and conversion factors it shall calculate maturity as set out under CRR Article 162(2) to 162(3).

### **Definition of default under CRR article 178**

11. 90 days is replaced with 180 days in CRR Article 178(1)(b) for exposures secured by residential real estate in the retail exposure class.

### **Unfunded credit protection under CRR article 161(3)**

12. This paragraph does not apply to this IRB Permission.

### **Eligible collateral under CRR article 199**

13. The company may use as eligible collateral types of physical collateral other than those indicated in paragraphs 2, 3 and 4 of Article 199 of the CRR where permission is or has been granted in accordance with paragraph 6 of Article 199.

### **Further specifications**

14. This paragraph does not apply to this IRB Permission.

### **Material, significant and other changes**

15. In accordance with Article 143(3), (4) of Regulation 575/2013 of the European Parliament and of the Council of 26th June 2013 on prudential requirements for credit institutions and investment firms ("the CRR") and the Delegated Regulation (EU) No 529/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for assessing the materiality of extensions and changes of the Internal Ratings



Based Approach and the Advanced Measurement (as amended) as these form part of retained EU law,

(1) the company will require a further permission from the PRA in respect of the following changes to the IRB Permission:

- (a) material changes to the range of application of a ratings system or an internal models approach to equity exposures; or
- (b) material changes to a ratings system or an internal models approach to equity exposures; and

(2) the company must notify the PRA of all changes to ratings systems and internal models approaches to equity exposures subject to the IRB Permission.

16. In accordance with Article 143(3) of the CRR, the PRA has granted permission for material changes as set out in Annex 3.



**SCHEDULE 1**

**High level scope and coverage of IRB permission.**

The PRA has granted the IRB permission for the categories and types of exposures identified in Table 1 below with the exception of the permanent exemptions in Table 2. Exposure classes that are not applicable to the company are marked N/A.

**Table 1**

<i><b>IRB exposure classes</b></i>	<i><b>Sub-classes (&amp; art 155 approach, if applicable)</b></i>	<i><b>Country</b></i>	<i><b>Own estimates of LGDs and Conversion Factors (tick if apply)</b></i>	<i><b>Additional provisions/</b></i>
Exposures to central governments and central banks		All countries		
Exposures to institutions	Exposures to financial institutions	All countries		
Exposures to corporates	Other Corporate	UK Only		
	Corporate SME			
	Specialised Lending			
Retail exposures	Exposures fully and completely secured by mortgages on residential property	UK Only	<input checked="" type="checkbox"/>	
	Qualifying revolving retail exposures			
	Other retail			
Equity exposures		UK Only	N/A	
Securitisation positions		UK Only		
Non credit-obligation assets		UK Only	N/A	



Table 2

<b>Exposures permanently exempted from the IRB Approach under CRR Article 150</b>		
<b><i>Exposure Class</i></b>	<b><i>Sub-classes</i></b>	<b><i>Portfolio/Business Unit</i></b>
Exposures to central governments and central banks (CRR Article 150(1)(a))	<ol style="list-style-type: none"> <li>1. Central Governments and Central Banks</li> <li>2. Central Governments and Central Banks</li> <li>3. Central Governments and Central Banks</li> <li>4. Central Banks and Central Governments</li> </ol>	<ol style="list-style-type: none"> <li>1. NHS Trusts</li> <li>2. Public Sector Entities</li> <li>3. Regional Government or Local Authorities</li> <li>4. Multilateral development banks assigned 0% risk weight (per CRR Article 117(2))</li> </ol>
Exposures to institutions (CRR Article 150(1)(b))	<ol style="list-style-type: none"> <li>1. Exposures to financial institutions</li> </ol>	<ol style="list-style-type: none"> <li>1. Institutions</li> </ol>
Non significant businesses or immaterial exposure classes or exposure types (CRR Article 150(1)(c))	<ol style="list-style-type: none"> <li>1. Other corporate</li> <li>2. Other corporate</li> <li>3. Other retail</li> <li>4. Specialised lending</li> <li>5. Other corporate</li> <li>6. Exposures fully and completely secured by mortgages on residential property</li> <li>7. Other corporate</li> <li>8. Equity</li> <li>9. Other retail</li> <li>10. Other corporate</li> </ol>	<ol style="list-style-type: none"> <li>1. Charities / Non-profit Organisations</li> <li>2. Housing Associations (not RSLs)</li> <li>3. Professional and Career Development Loans</li> <li>4. Renewable Energy</li> <li>5. Start-up General Corporates</li> <li>6. Historical mortgages</li> <li>7. Asset Finance</li> <li>8. Minority shareholdings in JVs, financial services companies and football clubs</li> <li>9. Personal loans</li> <li>10. Large Corporates</li> </ol>
Exposures on central governments and central banks, etc. in Member States (CRR Article 150(1)(d))	<ol style="list-style-type: none"> <li>1. Central Banks and Central Governments</li> </ol>	<ol style="list-style-type: none"> <li>1. Central Banks and Central Governments</li> </ol>
<b>Other</b> (CRR Article 150(1)(e)-(j))		



## **EXPECTATIONS RELEVANT TO THE IRB PERMISSION**

The PRA's expectation is that the company will submit, on an annual basis, an inventory of

- (i) all ratings systems; and
- (ii) all internal approaches to equity exposures

which are included within the scope of its IRB Permission as of 30 September of that year. The PRA's expectation is that the company will submit the inventory no later than 31 December of the relevant year.



ANNEX 3

**VERSION CONTROL SCHEDULE**

**NOTICES OF MATERIAL CHANGES AND EXTENSIONS TO IRB PERMISSION**

<b>Version</b>	<b>Comment</b>	<b>Authorisation</b>	<b>Date</b>
1.0	IRB Permission granted	Steve Riding, FSA	31/12/2007
2.0	Amendment to direction to include entities from the Britannia Building Society following the merger with the Co-Operative	Bob Fennell, FSA	31/07/2009
3.0	Revised Definition of Default	Virginia Echave-Esteban, PRA	19/12/2018
4.0	Approval for a new Current Account model suite (PD, EAD, LGD)	Virginia Echave-Esteban, PRA	07/05/2019
5.0	Permanent exemption of personal loans from the IRB Approach under CRR Article 150	Virginia Echave-Esteban, PRA	06/06/2019
6.0	Permanent exemption from the IRB Approach under CRR Article 150 for: <ul style="list-style-type: none"> <li>• Institutions</li> <li>• Large Corporates</li> </ul>	Virginia Echave-Esteban, PRA	07/08/2019
7.0	Approval for the following new models: <ul style="list-style-type: none"> <li>• PFI (slotting)</li> <li>• Property Investment (slotting)</li> </ul>	Virginia Echave-Esteban, PRA	18/10/2019
8.0	Approval for a new Secured model suite (PD, EAD, LGD)	Virginia Echave-Esteban, PRA	26/02/2020
9.0	Approval to remove the uplift of +28.4% applied to risk weights for Covid-19 related Payment Holidays.	Nicki Harrison, PRA	19/06/2020
10.0	Replacement of the application scorecard component of the Current Account PD model (MR00313)	Nicki Harrison, PRA	27/07/2020
11.0	Approval to use a new HPI source and for a number of necessary and consequential changes to the PD and LGD models resulting from the HPI index change	Nicki Harrison, PRA	26/11/2020
12.0	Approval to replace the existing Credit Card IRB model suite (PD –MR00081, LGD MR00091, EAD 00088).	Miriam Martin, PRA	27/10/2021
13.0	Permission granted to the Holding Company on a consolidated basis.	SRPC	26 November 2021