



WRITTEN NOTICE: IRB PERMISSION

To: The Co-operative Bank plc. (FRN: 121885) (the “firm”)
Co-operative Bank Holdings Limited (FRN: 788731) (the “holding company”)
(together, “the addressees”)

Ref: 00003584

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

Date: 21 January 2022

DECISIONS

1. On 1 January 2008, the firm was granted an IRB waiver under s138A of the Financial Services and Markets Act 2000 (the “Act”) by the Prudential Regulation Authority (“PRA”). 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 permissions granted by the PRA on an individual and consolidated basis 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 (the “CRR”). Accordingly the firm has been granted the permission 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 and Annex 4 (the “IRB Permission”). The permission to use the IRB approach on a consolidated basis was transferred to the company on 26 November 2021.
2. Further to regulations 34B and 35B of the Capital Requirements Regulations 2013 and an application made by the firm in accordance with section 55M(5) of the Financial Services and Markets Act 2000 (the “Act”) for certain requirements the PRA has decided to grant the firm the requirements specified in Annex 2. The PRA expects the holding company to submit the information requested at Annex 3.
3. If an addressee ceases to comply with the conditions for granting of this IRB Permission set out in Chapter 3, Title II, Part Three of the CRR, the terms and conditions of the IRB Permission set out in Annex 1, and any of the requirements set out in Annex 2, 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.
4. The IRB Permission with the requirements in Annex 2 takes effect on 21 January 2022. This written notice replaces the written notice reference number 00003380 issued to the firm on 27 October 2021 and the written notice issued to the company on 26 November 2021.



PROCEDURAL MATTERS

5. If an addressee wishes to challenge the decisions taken by the PRA in relation to the IRB Permission, the addressee may refer the matter to the Upper Tribunal.
6. Details of the IRB Permission and the attendant requirements sought or imposed under section 55M of the Act will be published on the PRA Register.
7. Further details of procedural matters are contained in Annex 4.
8. Annex 5 summarises any previous variations of the IRB Permission.

Miriam Martin
Senior Manager, UK Retail Deposit Takers



ANNEX 1

THE INTERNAL RATINGS BASED PERMISSION

Legal Entities

1. The IRB Permission means that
 - a. the firm may apply the internal ratings based approach in its calculation of own funds requirements on an individual basis.
 - b. the holding company may apply the internal ratings based approach in its calculation of own funds requirements on a consolidated basis 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 addressees must calculate the 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 addressees are 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 addressees by the PRA, including those specified in this IRB Permission Notice, all changes and extensions notified by the addressees and accepted by the PRA, and all material changes and extensions for which permission has been granted by the PRA noted in Annex 4.

Permanent partial use

4. The addressees are 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 addressees are 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 addressees are 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 addressees do 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 addressees 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 the CRR and the Delegated Regulation (EU) No 529/2014 as it forms part of retained EU law,



- (1) the addressees 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 addressees 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 4.



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 addressees are marked N/A.

Table 1

<i>IRB exposure classes</i>	<i>Sub-classes (& art 155 approach, if applicable)</i>	<i>Country</i>	<i>Own estimates of LGDs and Conversion Factors (tick if apply)</i>	<i>Additional provisions/</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	☒	
	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

Exposures permanently exempted from the IRB Approach under CRR Article 150		
<i>Exposure Class</i>	<i>Sub-classes</i>	<i>Portfolio/Business Unit</i>
Exposures to central governments and central banks (CRR Article 150(1)(a))	1. Central Governments and Central Banks 2. Central Governments and Central Banks 3. Central Governments and Central Banks 4. Central Banks and Central Governments	1. NHS Trusts 2. Public Sector Entities 3. Regional Government or Local Authorities 4. Multilateral development banks assigned 0% risk weight (per CRR Article 117(2))
Exposures to institutions (CRR Article 150(1)(b))	1. Exposures to financial institutions	1. Institutions
Non significant businesses or immaterial exposure classes or exposure types (CRR Article 150(1)(c))	1. Other corporate 2. Other corporate 3. Other retail 4. Specialised lending 5. Other corporate 6. Exposures fully and completely secured by mortgages on residential property 7. Other corporate 8. Equity 9. Other retail 10. Other corporate	1. Charities / Non-profit Organisations 2. Housing Associations (not RSLs) 3. Professional and Career Development Loans 4. Renewable Energy 5. Start-up General Corporates 6. Historical mortgages 7. Asset Finance 8. Minority shareholdings in JVs, financial services companies and football clubs 9. Personal loans 10. Large Corporates
Exposures on central governments and central banks, etc. in Member States (CRR Article 150(1)(d))	1. Central Banks and Central Governments	1. Central Banks and Central Governments
Other (CRR Article 150(1)(e)-(j))		



ANNEX 2

REQUIREMENTS RELEVANT TO THE IRB PERMISSION GRANTED FOLLOWING AN APPLICATION IN ACCORDANCE WITH SECTION 55M(5) OF THE ACT

Reporting Requirements

1. The firm must 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 firm must submit the inventory no later than 31 December of the relevant year.



ANNEX 3

EXPECTATIONS RELEVANT TO THE IRB PERMISSION

Reporting expectations

1. 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 4

PROCEDURAL MATTERS

Decision-Maker

1. The decision which gave rise to the obligation to give this Notice was made by the Head of Major UK Retail Deposit Takers by delegation from the Senior Risk and Policy Committee (SRPC).

The Tribunal

2. Each addressee has the right to refer the decision to grant the IRB Permission to the Upper Tribunal (the “Tribunal”). The Tax and Chancery Chamber is the part of the Tribunal which, amongst other things, hears references arising from decisions of the PRA. Under paragraph 2(2) of Schedule 3 of the Tribunal Procedure (Upper Tribunal) Rules 2008, the addressee has 28 days from the date on which this Written Notice is given to the addressee to refer the matter to the Tribunal.
3. A reference to the Tribunal can be made by way of a reference notice (Form FTC3) signed by the addressee and filed with a copy of this Written Notice. The Tribunal’s contact details are: The Upper Tribunal, Tax and Chancery Chamber, 45 Bedford Square, London WC1B 3DN (telephone: 020 7612 9700; email: financeandtaxappeals@tribunals.gsi.gov.uk). Further details are contained in “Making a Reference to the UPPER TRIBUNAL (Tax and Chancery Chamber)” which is available from the Tribunal website: <http://www.tribunals.gov.uk/financeandtax/FormsGuidance.htm>.
4. The addressees should note that a copy of the reference notice (Form FTC3) must be sent to the PRA at the same time that a reference is filed with the Tribunal. A copy of the reference notice should be sent to Luke Whiting at the PRA, 20 Moorgate, London EC2R 6DA.

PRA contacts

5. For more information concerning this matter generally, the addressees should contact James Beardon on 020 3461 8065.



ANNEX 5

VERSION CONTROL SCHEDULE

NOTICES OF MATERIAL CHANGES AND EXTENSIONS TO IRB PERMISSION

Version	Comment	Authorisation	Date
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: • Institutions • Large Corporates	Virginia Echave-Esteban, PRA	07/08/2019
7.0	Approval for the following new models: • PFI (slotting) • Property Investment (slotting)	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	26/11/2021
14.0	Permission repapered to be addressed to the firm and holding company. Approval to permanently revert to a standardised approach for the calculation of capital requirements for all exposures	Miriam Martin, PRA	21/01/2022



	under government endorsed Coronavirus Business Interruption Loan Scheme.		
14.0	Approval to permanently revert to a standardised approach for the calculation of capital requirements for Business Banking exposures, under the Corporate SME exposure class.	Miriam Martin, PRA	21/01/2022
14.0	Approval to permanently revert to a standardised approach for the calculation of capital requirements for Business Payment Cards and SME Credit Cards.	Miriam Martin, PRA	21/01/2022