



Direction

To:

On a solo basis:

The Co-operative Bank plc (the "principal firm")

On a consolidated basis;

The Co-operative Bank plc
Co-operative Commercial Limited
First Roodhill Leasing Limited
Second Roodhill Leasing limited
Third Roodhill Leasing limited
Fourth Roodhill Leasing limited
First Pioneers Leasing limited
Second Pioneers Leasing limited
Third Pioneers Leasing limited
Roodhill Leasing Limited
Larchvale Limited
Co-operative Bank Financial Advisers Limited
Unity Trust Bank Limited
Mortgage Agency Services Number 1 Limited
Mortgage Agency Services Number 2 Limited
Mortgage Agency Services Number 4 Limited
Mortgage Agency Services Number 5 Limited
Mortgage Agency Services Number 6 Limited
Mortgage Agency Services Number 7 Limited
Western Mortgage Services Limited
Platform Home Loans Limited
Platform Funding Limited

Each other firm in the Co-operative Bank group (the "group") as at the date of this direction, that falls into *BIPRU* 8.1.1R (collectively the "firms")

Ref: Direction Number - 843458

Of: 1 Balloon Street, Manchester. M60 4EP

Date: 31 July 2009

Handbook Version as in force at the date of this Direction

Power

1. This variation direction is given by the *FSA* under section 148 of the *Act*.

Duration

- 2.1 The direction number 843458 takes effect on 01 January 2008 and remains in effect (as restated and as may be varied), subject to the variation contained in this direction.
- 2.2 The variation in this direction takes effect on 1 August 2009.

Rules Waived/Modified

3. The FSA directs that the *rules* listed below and, where applicable, in Schedule 2 apply to the firms with the modifications shown or, where indicated, do not apply to the firms.

Chapter/Rule	Modification/Waiver
GENPRU 2.1.51R	This <i>rule</i> is modified as follows: A BIPRU firm <u>principal firm</u> must calculate its <i>credit risk capital requirement</i> as the sum of: (1) the <i>credit risk capital component</i>; (2) the <i>counterparty risk capital component</i>; and (3) the <i>concentration risk capital component</i>; <u>subject to the following:</u> (4) <u>for exposures covered by the IRB permission (as set out in Schedule 1 of the IRB permission), the principal firm must calculate its <i>credit risk capital requirement</i> and (to the extent that the relevant <i>Handbook</i> provisions provide for the use of the <i>IRB approach</i>) the <i>counterparty risk capital component</i> and the <i>concentration risk capital component</i> in accordance with the <i>IRB approach</i> and the IRB permission;</u> (5) <u>the principal firm must comply with other requirements in the IRB permission; and</u> (6) <u>the IRB permission means direction number 843458 and a "principal firm" means the same thing as it does in that direction.</u>
BIPRU 3.1.1R	The <i>rule</i> is modified by inserting after 'a <i>BIPRU firm</i>', the following: "but does not apply to a <i>firm</i> in relation to <i>exposures</i> to which the <i>IRB</i>

Chapter/Rule	Modification/Waiver
	<i>approach</i> is applied"
<i>BIPRU</i> 8.8.1R.	The <i>rule</i> is replaced by the following: "(1) A <i>firm</i> must use each of the <i>advanced prudential calculation approaches</i> listed in the table in <i>BIPRU</i> 8.8.1AR for the purposes of this chapter to the extent set out in that table and in accordance with that table. (2) Except as described in (1), a <i>firm</i> must not apply any <i>advanced prudential calculation approach</i> for the purposes of this chapter."
<i>BIPRU</i> 8.8	The following table is inserted immediately after <i>BIPRU</i> 8.8.1R.

Chapter/Rule	Modification/Waiver	
"BIPRU 8.8.1AR Table: Permissions to use advanced approaches		
This table belongs to BIPRU 8.8.1R		
Advanced prudential calculation approach	Scope	Remarks
IRB approach [Note 1]	(1) Subject to (2), applies to the <i>exposures</i> coming within the scope of Schedule 1 of the IRB permission in relation to a <i>firm's UK consolidation group</i> and each <i>non-EEA sub-group</i> as applied on a consolidated basis. (2) Applies to the <i>exposures</i> of the following <i>undertakings</i>: The Co-operative Bank plc Co-operative Commercial Limited First Roodhill Leasing Limited Second Roodhill Leasing limited Third Roodhill Leasing limited Fourth Roodhill Leasing limited First Pioneers Leasing limited Second Pioneers Leasing limited Third Pioneers Leasing limited Roodhill Leasing Limited Larchvale Limited Co-operative Bank Financial Advisers Limited Unity Trust Bank Limited Mortgage Agency Services Number 1 Limited Mortgage Agency Services Number 2 Limited Mortgage Agency Services Number 4 Limited Mortgage Agency Services Number 5 Limited Mortgage Agency Services Number 6 Limited Mortgage Agency Services Number 7 Limited Western Mortgage Services Limited Platform Home Loans Limited Platform Funding Limited	A firm must comply with the requirements of the IRB permission as applied on a consolidated basis.

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Conditions

4. This direction applies to the firms for so long as they remain part of the Co-Operative Bank consolidated group.

Guidance

- 5.1 The schedules to this direction in part contain requirements referred to in *GENPRU* 2.1.51R (as modified), and provisions in *BIPRU*, which the firm must comply with as *rules*. Schedule 2 sets out details of how the *IRB permission* applies for the purposes of *BIPRU* 4.1.23R (1) to (6). The schedules also contain guidance for the firm and where this is the case this is indicated.
- 5.2 As set out in *SUP* 8, the firm must notify the *FSA* immediately if it becomes aware of any matter which could affect the continuing relevance or appropriateness of this *waiver*. In particular any material change to the models needs to be reported to the *FSA* by the firms.
- 5.3 Any changes to any of Schedules 1 to 2 of this direction will require a variation of this direction.
- 5.4 As part of the supervisory process, the *FSA* will from time to time reissue Schedule 4. This does not represent a variation of this direction. Instead it is a process for recording in one place cumulative changes to the matters set out in the Schedules.

Interpretation

6. Interpretative provisions of the *Handbook* apply to this direction in the same way they apply to the *Handbook*.

Relationship Management Team
Major Retail Groups Division
Financial Services Authority



Schedule 1 – High level scope and coverage of IRB permission granted

The FSA has granted an *IRB permission* for the categories of *exposure* identified in table 1 below (boxes containing a tick) with the exception of the permanent exemptions in table 2. *Exposures* that are not applicable to the firm are left blank.

Table 1

<i>IRB exposure classes*</i>	Sub-classes	<i>Advanced IRB approach</i>	Geographies (by domicile of obligor)		
			All countries	UK only	<i>(Further column on a case by case basis)</i>
Claims or contingent claims on central governments and <i>central banks</i>			✓	✓	
Claims or contingent claims on <i>institutions</i>			✓	✓	
Claims or contingent claims on corporates	Secured/ Development and investment lending on real estate			✓	
	Other Corporate			✓	
Retail claims or contingent retail claims	Mortgage (Prime)			✓	
	Mortgage (sub prime/ non-performing/ Buy-to-let/ Others)			✓	
Equity claims				✓	
Securitisation positions				✓	
Non credit-obligation assets				✓	
* This is the list of broad classes of <i>exposures</i> within the scope of this direction as referred to in <i>BIPRU</i> 4.3.2 R.					

Portfolios permanently exempted from the <i>IRB approach</i> for application of the <i>standardised approach</i> (As referred to in <i>BIPRU 4.2.26 R</i>)			
Category	Exposure class	Portfolio	Description
Permanent exemptions for sovereigns, churches, religious communities, and institutions (As referred to in <i>BIPRU 4.1.23 R (1)</i>, <i>BIPRU 4.2.26 R (2)</i> and <i>BIPRU 4.2.26 R (3)</i>)			
Non-significant business units and immaterial exposure classes (As referred to in <i>BIPRU 4.1.23 R (1)</i> and <i>BIPRU 4.2.26 R (4)</i>)	1 Equity 2 Retail 3 Retail 4 Corporate 5 Unity Trust Bank 6. Overseas Corporates	1 Minority shareholdings in JVs, financial services companies and football clubs. 2 Residential Real Estate (Historic Mortgages) 3 Non-Revolving Retail (Ventura) 4. Asset Finance 5. All portfolios 6. Overseas Corporates	6. Overseas Commercial Property Investment Lending
Other (As referred to in <i>BIPRU 4.1.23 R (1)</i> and <i>BIPRU 4.2.26 R (5)-(10)</i>)	Nil.	Nil.	

Schedule 2:

This Schedule sets out details of the requirements in respect of how the *IRB permission* applies for the purposes of *BIPRU* 4.1.23R (1) to (6). The notes in this schedule are *guidance* only.

For firms using their own estimates of LGD and conversion factors

1. The firm may take into account *unfunded credit protection* to reduce *LGD* in the following manner:

Nil

Not applicable

2. The firm may only recognise the effects of financial collateral under *BIPRU* 10.6.17R in the following manner:

Nil

Note. As set out in *BIPRU* 10.6.17R, in calculating the value of its *exposures* to a *counterparty* or to a *group of connected clients* the firm, within the scope of its *IRB permission*, the firm must satisfy the *FSA* that the effects of financial collateral can be separately estimated from other *LGD* aspects, and must be able to demonstrate the suitability of the estimates produced. (see *BIPRU* 4.1.23 R (4)).

For all firms with IRB permission

3. The firm must deal with *equity exposures* in the following manner (see *BIPRU* 4.1.23 R (5) and *BIPRU* 4.7.3 R):

1) The simple risk weight approach (see *BIPRU* 4.7.8 R);

2) The PD/LGD approach (see *BIPRU* 4.7.13R);

3) The internal models approach (see *BIPRU* 4.7.23R)

Nil

Not applicable – treated under Standardised as a permanent exemption under *BIPRU* 4.2.29.

4. The firm may not recognise as eligible collateral a physical item of a type other than those types indicated in *BIPRU* 4.10.6R - *BIPRU* 4.10.12R (Eligibility of real estate collateral) and if the conditions in *BIPRU* 4.10.16R are met.

Note. A firm may only recognise such collateral as eligible if its *IRB permission* provides that the firm may treat collateral of that type as eligible and if the firm is able to demonstrate the following (see *BIPRU* 4.1.23 (6) and *BIPRU* 4.10.16 R):

- 1) the existence of liquid markets for disposal of the collateral in an expeditious and economically efficient manner;



- 2) the existence of well-established, publicly available market prices for the collateral; and
- 3) there is no evidence that the net prices it receives when collateral is realised deviates significantly from the market prices referred to in (b).



Schedule 3: Roll-out plan

This is the table referred to in *BIPRU 4.1.23 R (1)* and *BIPRU 4.2.18R- BIPRU 4.2.19R* (detailed implementation plan of the *IRB approach* coming within the scope of this direction). Firms should inform the *FSA* as soon as possible should they think they are not able to roll out in accordance with the plan before the end of window.

Table x

Exposure Class	Portfolio	Description	Planned Implementation Window		For Information: FSA review to take place before roll-out (Tick if applicable)
			Start of Window	End of Window	
Retail			1.1.08	1.7.08	
Corporate			1.1.08	1.7.08	
Financial Institutions			1.1.08	1.7.08	
Central Government			1.1.08	1.7.08	

Schedule 4: Reporting Requirements

This Schedule sets out reporting requirements for the firm for the purposes of *GENPRU* 2.1.51R as modified.

Reporting requirements

The firm must keep the *FSA* informed about its *IRB rating systems* and the environment within which they are being operated. The firm must provide information to the *FSA* in a manner that allows the *FSA* to exercise adequate oversight of the firm's *IRB approach*. In particular the firm is required to provide reports to the *FSA* in accordance with the requirements below.

1. The firm must inform the *FSA* in advance of significant events affecting the operation of ratings, such as:
 - introduction of new *rating systems*,
 - significant changes to *rating systems*,
 - significant changes to governance or senior management arrangements,
 - any other significant event affecting the *rating systems*.

Any material changes to one or more of the above must be notified to the *FSA* as soon as practicable. Detailed information should be provided on quantitative and qualitative aspects of the change.

Where changes to *rating systems* are involved the firm must report these changes to be reported in advance of their occurring in order to allow the *FSA* to review the *rating system* prior to live introduction.

2. In addition the firm must provide the *FSA* with details of any other changes relating to approved *rating systems*. This information may be provided after the event occurs.

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Schedule 5 (Version control)

Guidance – this table is used to maintain an audit trail of the evolution this direction. A new version number should be created each time a schedule to the direction is amended, whether or not the direction itself is formally revoked and reissued.

Version	Comment	Authorisation	Date
1.0	First Application	Steve Riding	31.12.07
2.0	Amendment to direction to include entities from the Britannia Building Society following the merger with the Co-Operative	Bob Fennell	31.07.09