

Bank of England PRA

WRITTEN NOTICE: IRB PERMISSION

To: Santander UK Plc (106054), Cater Allen Limited (178737) and Santander Financial Services Plc (146003) ("the firms")

To: Santander UK Group Holdings Plc (947933), (the "approved holding company")

together the firms and the approved holding company the "addressees"

Of: 2 Triton Square, Regent's Place, London NW1 3AN

Reference Numbers: 00007849 (Santander UK Plc), 00007850 (Cater Allen), 00007852 (Santander FS Plc) & 00007851 (Santander UK Group)

Date: 14 May 2024

DECISIONS

1. On 23 December 2009, Santander UK Plc, Cater Allen Limited and Santander Financial Services Plc (formerly Abbey National Treasury Services Plc) were granted an IRB waiver under s138A of the Financial Services and Markets Act 2000 (the "Act") by the Prudential Regulation Authority ("PRA") implementing a joint decision made by the PRA as Consolidating Supervisor and other relevant competent authorities. 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 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"). In accordance with the discretions afforded to the PRA under Chapter 3, Title II, Part Three of the CRR (as it forms part of retained EU Law) the addressees have been granted the permission to calculate their risk



weighted exposure amounts using the Internal Ratings Based Approach (“IRB Approach”) on the terms and conditions set out in Annex 1 and Annex 3 (the “IRB Permission”).

2. Subject to paragraph 7 in Annex 1 and as noted in Table 1 of Schedule 1, the IRB Permission with the requirements in Annex 2 takes effect on 13 May 2024. This written notice replaces the previous IRB permission notice dated 1 October 2023.

PROCEDURAL MATTERS

3. Details of the IRB Permission and the attendant requirements imposed under section 55M of the Act will be published on the Financial Services Register.
4. Annex 3 sets out any previous versions of the permission granted by the PRA in connection with the IRB Permission.

Anna Ghobadian Grinham
Head of Division, Domestic Systemically Important Banks

ANNEX 1

THE INTERNAL RATINGS BASED PERMISSION

Legal Entities

1. The IRB Permission means that each firm will, for the legal entities listed below, on a solo and sub-consolidated basis, as indicated, use its own calculation of own funds requirements in relation to the exposures described in paragraph 2 of this Annex in accordance with Article 143(3) of the CRR:
 - a. Santander UK Plc and Santander Financial Services Plc on an individual basis; and
 - b. Santander UK plc and Cater Allen Ltd on the basis of the sub-consolidated situation in relation to exposures incurred by Santander UK plc, Cater Allen Ltd, Santander Private Banking UK Limited, Santander Asset Finance plc, Santander Consumer (UK) plc, Santander UK Operations Ltd, Santander UK Technology Ltd, Santander ISA Managers Ltd.
- 1A. The IRB Permission means that the approved holding company will, on the basis of its consolidated situation use its own calculation of own funds requirements in relation to the exposures described in paragraph 2 of this Annex, in accordance with Article 143(3) of the CRR.
2. The exposures referred to in paragraph 1 and 1A are exposures incurred by Santander UK Group Holdings Plc, Santander UK Plc, Santander Financial Services Plc, Santander Equity Investments Limited, Cater Allen Ltd, Santander Private Banking UK Limited, Santander Asset Finance plc, Santander Consumer (UK) plc, Santander UK Operations Ltd, Santander UK Technology Ltd, Abbey Stockbrokers Ltd, Santander ISA Managers Ltd.
3. In accordance with Article 143(3) of the CRR, each addressee 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

4. Each addressee 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 addressees' IRB case file (reference RWM D000000959) comprising its IRB application documentation, as modified by all changes and specifications notified to the addressee by the PRA, including those specified in this IRB Permission Notice, all changes and extensions notified by the addressee 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

5. Each addressee 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

6. Each addressee is permitted to revert to the use of Standardised Approach for the calculation of risk-weighted exposure amounts for the exposure classes or types of exposure listed in Table 3 in Schedule 1.

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

7. With effect from 1 May 2023, each addressee is permitted to revert to the use of LGD and conversion factors referred to in CRR art 151(8) for the calculation of risk-weighted exposure amounts for the exposure classes or types of exposure listed in Table 4 in Schedule 1.

Sequential implementation

8. Each relevant addressee is required to implement the IRB Approach for Santander Consumer Finance by Q4 2028, Corporate SME by Q4 2027, and cards by Q4 2029.

Treatment by exposure class

9. Each addressee 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 each addressee 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) and (3).

Definition of default

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

Unfunded credit protection

12. Each addressee may recognise unfunded credit protection by adjusting PD and LGD.

Eligible collateral

13. Each addressee 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. The addressees must comply with the further specifications as set out in individual permissions and modifications.

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 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 addressees are marked N/A.

Table 1

IRB exposure classes	Sub-classes & art 155 approach, if applicable)	Country	Own estimates of LGDs and Conversion Factors (tick if apply)	Additional provisions/
Exposures to central governments and central banks	N/A	N/A	N/A	N/A
Exposures to institutions	Banks	All countries	N/A ¹	N/A
	Non-Banking Financial Institutions (Insurers)	All countries	N/A ²	N/A
Exposures to corporates	Specialised Lending – Commercial Real Estate (IPRE)	All countries	N/A	N/A
	Specialised Lending – Project Finance	All countries	N/A ³	N/A
	Social Housing	UK only	N/A ⁴	N/A
	Other	All countries	N/A ⁵	N/A
Retail exposures	Retail residential mortgages (secured by real estate non-SME)	UK only	✓	N/A
	Retail bank accounts (qualifying revolving)	UK only	✓	N/A

¹ Not applicable with effect from 1 May 2023

² Not applicable with effect from 1 May 2023

³ Not applicable with effect from 1 May 2023

⁴ Not applicable with effect from 1 October 2023

⁵ Not applicable with effect from 1 May 2023

	Retail unsecured personal loans (other non-SME)	UK only	✓	N/A
Equity exposures ⁶	N/A	N/A	N/A	N/A
Securitisation positions ⁷	N/A	N/A	N/A	N/A
Non-credit-obligation assets	N/A	N/A	N/A	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))	<ul style="list-style-type: none"> • All 	N/A
Exposures to institutions (CRR Article 150(1)(b))	<ul style="list-style-type: none"> • Multilateral Development Banks 	<ul style="list-style-type: none"> • Multilateral Development Banks
Non significant businesses or immaterial exposure classes or exposure types(CRR Article 150(1)(c))	<ul style="list-style-type: none"> • Retail • Corporate 	<ul style="list-style-type: none"> • Other Retail (permanently standardised residential mortgages, Commercial mortgages) • Alliance & Leicester originated unsecured personal loans • [Redacted] • Social Housing bonds issued by counterparties • Object Finance clients

⁶Article 155(2) approach used.

⁷ The SEC-IRBA approach can be used where the conditions of Article 258 are met.

Exposures on central governments and central banks, etc. in Member States (CRR Article 150(1)(d))	N/A	N/A
Other (CRR Article 150(1)(e)-(j))	N/A	N/A

Table 3

Exposures for which permission has been given to revert to the Standardised Approach under CRR Article 149			
Category	Exposure class/Exposure type	Portfolio/Business Unit	Description
Corporate	Corporate SME	SME	SME

Table 4

Exposures for which permission has been given to revert to LGD/conversion factors referred to in CRR art 151(8) under CRR Article 149			
Category	Exposure class /Exposure type	Portfolio/Business Unit	Description
Corporate	Corporate Exposures	Large Corporates	Large corporate customers
Financial Institutions	Banks	FI-Banks	Banks
Corporate	Corporate Exposures	Project Finance	Project Finance
Financial Institutions	Non-banks	FI- Non banks	NBFIs
Corporate	Corporate Exposures	Social Housing	Social Housing

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 firms 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 the IRB Permission as of 30 September of that year. Each firm must submit the inventory no later than 31 December of the relevant year.

ANNEX 2A

EXPECTATIONS RELEVANT TO THE IRB PERMISSION

Reporting expectations

1. The PRA's expectation is that the approved holding 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 approved holding company will submit the inventory no later than 31 December of the relevant year.

ANNEX 3

VERSION CONTROL SCHEDULE

Version	Comment	Authorisation	Date	Reference Number
1.0	IRB Permission granted (waiver direction issued)	Matthew Tagg	23/12/09	
Residential Mortgages				
	Changes to BEEL		April 2010	
	Move Long-run PD to variable scalar methodology		December 2009	
	IMD Development (aligned San UK and A&L onto 90dpd)		December 2012	
	Removal of [Redacted] conservatism for PDs due to monitoring		December 2013	
	Revision of A&L PDs (central tendencies)		January 2015	
Customer Bank Accounts (Overdrafts)				
	Changes to BEEL		April 2010	
	A&L portfolio reverted to standardised (subsequent changes are reflected in Schedule 1)		July 2010	
	IMD Development		December 2013	

	(San UK and A&L integrated development)			
Unsecured Personal Loans	Use of the San UK models to rate new business going through A&L systems (Phoenix)		December 2009	
	Changes to BEEL		April 2010	
	A&L business reverting to Standardised approach		December 2013	
Global Banks				
	PD recalibration		July 2012	
	PD recalibration (and [Redacted] RWA Addon)		January 2017	
Global Non-Banking Financial Institutions (Insurers)				
	Group NBFi Model		June 2011	
Social Housing				
	PD recalibration		June 2010	
Global Corporates				
	Group Corporates Model		June 2011	
	PD recalibration		June 2013	
	PD recalibration (and [Redacted] RWA Addon)		January 2017	
Corporates				

	Credit Edge PD recalibration		May 2017	
	Moody's Risk Advisor PD recalibration		May 2017	
Project Finance				
	Group PF slotting model		December 2013	
	CRR Permission - IRB Model Change - Pre approval (Joint Decision); Global Large Corporates (MRG) PD recalibration	Pedro Gustavo (ECB)	28/12/2016	15164
	CRR Permission - IRB Model Change - Pre approval (Joint Decision); Extension of AIRB approach to Local Large Corporates (MRL) portfolio	Pedro Gustavo (ECB)	28/03/2018	17703
	CRR Permission - IRB Model Change - Pre approval; Bank Accounts / Unsecured Personal Loan IMD IRB Model	Diego Escanero	Approval given 15/12/2016 / written notices on 29/11/2016 & 01/06/2017	22284
	CRR Permission - IRB Model Change - Pre approval;	Emily Adler	Approval given on 12/12/2016 / written notice on 28/12/2016	22292

	Bank Accounts / Unsecured Personal Loans PD re-calibration			
	CRR Permission - Article 150 - Reversion to Standardised Approach; Object Finance Portfolio	Virginia Echave Esteban	07/02/2019	32929
	CRR Permission - IRB Model Change - Pre approval; Mortgage PD scorecard change	Virginia Echave Esteban	07/02/2019	33850
	CRR Permission - IRB Model Change - Pre approval; Unsecured Personal Loans scorecard change	JST	07/04/2020	
	CRR Permission - IRB Model Changes - Pre Approval (Joint Decision): Global Corporates PD, Global Banks PD	Pedro Gustavo (ECB)	07/08/2019	
Global Models - Large corporates, FI-Banks, FI- Non Banks and Project Finance	Reversion to FIRB for Large Corporates, FI - Banks, FI- Non Banks and	Anna Ghobadian-Grinham	01/05/2023	

	Project Finance [Article 149]			
Corporate SME	Reversion from FIRB to Standardised Approach [Article 149]	Anna Ghobadian-Grinham	01/07/2023	00006230 00006234 00006235
Social Housing	Reversion to FIRB [Article 149]	Anna Ghobadian-Grinham	01/10/2023	00006886 00006887 00006888
Tables 2, 3 and 4	Corrections to tables	Anna Ghobadian-Grinham	13/05/2024	-
Updates to sequential implementation section	Reflecting updated IRB roll out plan	Anna Ghobadian-Grinham	13/05/2024	00007849 00007850 00007851 00007852