Internal Credit Risk Modelling Policy

## Chapter X: Internal Ratings-Based (IRB) Model Development Policy for Residential Mortgage Portfolios

### 1. Introduction and Scope

This chapter outlines the Bank's policy for the development, maintenance, and validation of Internal Ratings-Based (IRB) models specifically for residential mortgage portfolios within the European Union (EU). It incorporates requirements and supervisory expectations derived from Regulation (EU) No 575/2013 (CRR), Directive 2013/36/EU (CRD), the European Central Bank (ECB) Guide to Internal Models (EGIM, July 2025 Release 4.0), and the EBA Guidelines on PD Estimation, LGD Estimation and the Treatment of Defaulted Exposures (EBA/GL/2017/16, hereafter "EBA GL on PD and LGD").

The residential mortgage portfolio represents a significant and growing exposure class for the Bank, as highlighted by industry trends (e.g., EBA Risk Assessment of the European Banking System, June 2015). Consequently, the robustness and accuracy of IRB models for this portfolio are critical for capital adequacy, risk management, and strategic decision-making. This policy ensures that the Bank's IRB models for residential mortgages adhere to the highest prudential standards, promote comparability of risk estimates, and maintain appropriate risk sensitivity.

### 2. Overarching Principles for Internal Models

#### 2.1. Governance and Documentation

All IRB models, including those for residential mortgages, shall be subject to robust governance and comprehensive documentation throughout their lifecycle (development, calibration, validation, approval, implementation, application, and review of estimates) as per Paragraph 2 of the EGIM.

\* \*\*Documentation Standards:\*\* Model documentation shall be sufficiently detailed to allow a qualified third party to independently understand the methodology, assumptions, limitations, and use of the model, and to replicate its development and implementation (EGIM, Paragraph 4). This includes technical aspects, data processes, user instructions, and performance/validation results.  
\* \*\*Model Register:\*\* A comprehensive register of all internal models shall be maintained, including model owner(s), range of application, materiality classification, approval dates, restrictions, key weaknesses, and change history (EGIM, Paragraph 6).  
\* \*\*Management Body and Senior Management Involvement:\*\* The Management Body and Senior Management shall be actively involved in the risk control process, possessing a general understanding of the rating systems and a good understanding of their designs and operations (EGIM, Paragraphs 14-17; CRR Article 189(1)-(2)). Material aspects of rating and estimation processes, including the roll-out plan, shall be approved at both levels.

#### 2.2. Data Governance

Sound data governance practices, aligned with the ECB Guide on effective risk data aggregation and risk reporting and principles such as the Digital Operational Resilience Act (DORA) and BCBS 239, shall be in place for all data used as inputs for IRB models (EGIM, Paragraphs 9-10). This includes robust organisational measures for data management and security across the entire data lifecycle.

\* \*\*Consistency in Human Judgement:\*\* Where human judgement influences target variable values (e.g., "unlikeliness to pay" flags), a data governance process shall ensure consistency in labelling, clear guidelines, and regular analysis to prevent systematic differences in judgement (EGIM, Paragraph 11).

#### 2.3. Model Risk Management Framework

An effective model risk management framework shall be implemented to identify, understand, and manage model risk across the group (EGIM, Paragraph 12). This framework shall include:

\* A written model risk management policy defining what constitutes a model, interpreting model risk, and describing the framework's components.  
\* Guidelines for identifying and mitigating measurement uncertainty and model deficiencies, considering qualitative aspects such as data deficiencies and model misuse.  
\* Guidelines and methodologies for qualitative and/or quantitative assessment and measurement of model risk.  
\* Regular complexity assessment for all internal models, with higher expectations for highly complex or dynamic models (EGIM, Paragraph 13).

### 3. Model Development for Residential Mortgages

The model development phase focuses on achieving appropriate risk differentiation within the residential mortgage portfolio.

#### 3.1. Range of Application and Segmentation

\* \*\*Homogeneous Management:\*\* Residential mortgage exposures covered by the same rating system shall be homogeneously managed in terms of risk management, decision-making, and credit approval processes (EBA GL on PD and LGD, Paragraph 13).  
\* \*\*Common Scales:\*\* A common obligor rating scale and a common facility rating scale shall be applied within the rating system (EBA GL on PD and LGD, Paragraph 13).  
\* \*\*Calibration Segments:\*\* The PD and LGD models may comprise various calibration segments. These segments shall be justified and documented, particularly where subsets of exposures exhibit significantly different risk levels (EBA GL on PD and LGD, Paragraph 97). For residential mortgages, this could include segmentation by region (e.g., NUTS 1, 2 or 3 as defined by Eurostat), property type, or specific product features.

#### 3.2. Risk Drivers and Rating Criteria

\* \*\*Materiality and Economic Rationale:\*\* Estimates shall be based on material drivers of the risk parameters (CRR Article 179(1)(a)). The selection of risk drivers and rating criteria for residential mortgages shall be based on statistical analysis and consultation with relevant business experts to ensure business rationale and risk contribution (EBA GL on PD and LGD, Paragraph 58; EGIM, Paragraph 61).  
\* \*\*Specific Risk Drivers for Residential Mortgages:\*\* For PD models covering retail exposures secured by real estate, relevant risk drivers shall include, but not be limited to, region, type of real estate (e.g., residential), past delinquency, and maturity (EGIM, Paragraph 204(c)). For LGD models, risk drivers should also consider Loan-to-Value (LtV) ratio and geographical location of the collateral (EBA GL on PD and LGD, Paragraph 121(a)).  
\* \*\*Climate-Related and Environmental Risks:\*\* Where climate-related and environmental risk drivers are identified as relevant and material for residential mortgages (e.g., flood risk, energy efficiency ratings affecting property value), they shall be included in the internal models (EGIM, Paragraph 29 and 281). Institutions without sufficient information on these drivers shall consider a more conservative approach in rating assignments (EGIM, Paragraph 80, footnote 77).  
\* \*\*Ageing of Information:\*\* The decrease in reliability of information over time (e.g., initial property valuation, obligor characteristics at origination) shall be appropriately reflected in PD and LGD estimations. The model or assignment process shall provide for adequate and conservative adjustment for outdated information (EBA GL on PD and LGD, Paragraph 59).  
\* \*\*Consistency of Time Horizon:\*\* Risk drivers and rating criteria shall be used consistently with respect to the relevant time horizon in model development, calibration, and application (EBA GL on PD and LGD, Paragraph 60).

#### 3.3. Statistical Models and Machine Learning Techniques

\* \*\*Overfitting Mitigation:\*\* For statistical models used in assigning exposures to grades or pools, the statistical process for model selection shall include assessing performance on independent datasets (out-of-sample and out-of-time data) to limit the risk of overfitting (EGIM, Paragraph 203).  
\* \*\*Use of Machine Learning (ML) Techniques:\*\* Where ML techniques are employed in residential mortgage models, the Bank shall ensure:  
 \* \*\*Justification of Complexity:\*\* The complexity of ML-based models is justified by performance increase and enhanced organisational objectives (EGIM, Paragraph 60).  
 \* \*\*Explainability:\*\* Reliance on explainability techniques and tools to support the plausibility and intuitiveness of estimates, assessing individual risk driver contributions globally and for specific predictions (EGIM, Paragraphs 61-62). Different levels of explainability shall be provided to different stakeholders (EGIM, Paragraph 65).  
 \* \*\*Robustness and Accuracy:\*\* Explanations derived from ML models shall be robust, accurate, and actionable (EGIM, Paragraph 64).  
 \* \*\*Data Adequacy:\*\* Standards for assessing the adequacy of data types, amounts, and sources for ML techniques shall be defined, especially for synthetic or unstructured data (EGIM, Paragraph 50). Input data shall undergo exploratory analysis to understand formats, missing values, and potential biases (EGIM, Paragraph 51).  
 \* \*\*Replicability:\*\* Documentation of ML components shall allow for replication, including parameters and hyperparameters, and storage of random seeds and observation ordering for training (EGIM, Paragraph 59).

#### 3.4. Human Judgement in Model Development

\* Human judgement, where used in model development (e.g., setting assumptions, identifying risk drivers, combining components), shall be appropriately managed and proportionate to the number of relevant available observations (EGIM, Paragraph 195). Such judgement shall be documented and justified, and not be the sole basis for quantifying risk parameters (EGIM, Paragraph 196; EBA GL on PD and LGD, Paragraph 35).

### 4. Risk Quantification for Residential Mortgages

#### 4.1. Probability of Default (PD) Estimation

\* \*\*Calculation of One-Year Default Rate:\*\* The denominator for the one-year default rate shall consist of non-defaulted obligors with any credit obligation at the beginning of the one-year observation period. The numerator shall include all such obligors that had at least one default event during the period (EBA GL on PD and LGD, Paragraph 73).  
\* \*\*Treatment of Mortgages with Small Payments:\*\* For residential mortgage products with small interest payments (e.g., bullet loans, interest-only mortgages) where the days past due criterion might be delayed, the Bank shall define appropriate additional "unlikeliness to pay" indications to anticipate default recognition (EGIM, Paragraph 153).  
\* \*\*Long-Run Average (LRA) Default Rate:\*\* The LRA default rate shall be computed from historical observation periods that are as broad as possible and contain a representative mix of good and bad economic years (EBA GL on PD and LGD, Paragraphs 82-83; EGIM, Paragraphs 235-236). If the historical period is not representative, appropriate adjustments shall be made (EBA GL on PD and LGD, Paragraph 85).  
 \* The historical observation period shall contain at least the five most recent years and extend to previous relevant years to reflect the likely range of variability (EGIM, Paragraph 236(a)).  
 \* The LRA default rate shall be compared against a reference LRA DR (e.g., from January 2008 to December 2018 for EU exposures) at calibration segment level, with deviations justified or leading to revision (EGIM, Paragraphs 237-238).  
\* \*\*Calibration to LRA Default Rate:\*\* Calibration shall be performed after taking into account overrides and before applying MoC or floors (EBA GL on PD and LGD, Paragraph 89). The calibration sample shall balance comparability with the application portfolio and representativeness of the likely range of variability (EBA GL on PD and LGD, Paragraph 88).  
 \* The Bank shall choose to calibrate to the LRA default rate at either the grade/pool level or the calibration segment level, performing additional calibration tests at the alternative level (EBA GL on PD and LGD, Paragraph 92; EGIM, Paragraphs 240-242).  
\* \*\*Direct PD Estimates:\*\* For direct PD estimates, the theoretical assumptions of the probability model shall be sufficiently met in practice, and the LRA default rate retained. Continuous PDs shall not be used to overcome data scarcity or deficiencies (EBA GL on PD and LGD, Paragraph 96).

#### 4.2. Loss Given Default (LGD) Estimation

\* \*\*Realised LGD Calculation:\*\* Realised LGD shall be calculated at the single facility level for each default (EBA GL on PD and LGD, Paragraph 100; EGIM, Paragraph 259). In exceptional cases where recovery is not performed at the single facility level (e.g., several facilities secured by the same collateral), LGD may be calculated at a more aggregated level, provided specific conditions are met and documented (EGIM, Paragraph 260).  
\* \*\*Economic Loss Definition:\*\* Economic loss shall be calculated as the difference between the outstanding amount at default (including principal, interest, fees, and material direct/indirect costs discounted to default) and any recoveries realised after default discounted to the moment of default (EBA GL on PD and LGD, Paragraph 132; EGIM, Paragraph 261).  
\* \*\*Discounting Rate:\*\* All recoveries, costs, and additional drawings after default shall be discounted using an annual rate composed of a primary interbank offered rate (e.g., 3-month EURIBOR) applicable at the moment of default, increased by an add-on of 5 percentage points (EBA GL on PD and LGD, Paragraph 143; EGIM, Paragraph 261).  
\* \*\*Treatment of Fees, Interest, and Additional Drawings:\*\* Fees and interest capitalised before default shall be included in the outstanding amount at default. Additional drawings after default shall be included in the economic loss numerator. Their inclusion in the denominator of realised LGD depends on their treatment in conversion factors (EBA GL on PD and LGD, Paragraphs 137-142; EGIM, Paragraph 261).  
\* \*\*Recoveries from Collaterals:\*\* Recoveries stemming from immovable property collateral (e.g., residential properties) shall be recognised, including proceeds from sales by the obligor or institution, public auctions, or sales of credit obligations where collateral is reflected in the price (EBA GL on PD and LGD, Paragraph 115).  
\* \*\*Repossessed Collateral Haircuts:\*\* Where collateral is repossessed, the value of repossession shall be adjusted by an appropriate haircut to reflect potential sale price, costs, and discounting effects, assuming intent for immediate sale. Haircuts shall be supported by historical observations and regularly back-tested (EBA GL on PD and LGD, Paragraph 117; EGIM, Paragraph 291).  
\* \*\*Long-Run Average LGD:\*\* The LRA LGD shall be an arithmetic average of realised LGDs over a historical observation period, weighted by the number of defaults (EBA GL on PD and LGD, Paragraph 150; EGIM, Paragraph 293). This period shall be as broad as possible and include data from various economic circumstances (EBA GL on PD and LGD, Paragraph 147).  
\* \*\*Incomplete Recovery Processes:\*\* Relevant information from incomplete recovery processes shall be taken into account conservatively. Future recoveries may be estimated until a maximum recovery period, with underlying assumptions justified and back-tested (EBA GL on PD and LGD, Paragraphs 153-159; EGIM, Paragraphs 288-290).  
\* \*\*No Loss/Positive Outcome:\*\* Realised LGDs that result in a negative number (profit) shall be floored at zero for LRA LGD calculation (EBA GL on PD and LGD, Paragraph 160; EGIM, Paragraph 293(b)).  
\* \*\*Downturn LGD:\*\* LGD estimates shall be appropriate for an economic downturn, consistent with Commission Delegated Regulation (EU) No 2021/930. The Bank shall characterise an economic downturn and derive LGD estimates appropriate for these conditions (EGIM, Paragraph 298). Downturn LGD shall not be calibrated at a more aggregate level than LRA LGD (EGIM, Paragraph 299).

#### 4.3. Expected Loss Best Estimate (ELBE) and LGD in-default

\* \*\*Estimation Methodologies:\*\* ELBE and LGD in-default for defaulted residential mortgage exposures shall use consistent estimation methods with LGD for non-defaulted exposures (EBA GL on PD and LGD, Paragraph 167).  
\* \*\*Reference Dates:\*\* Discrete reference dates shall be set for grouping defaulted exposures based on observed recovery patterns (EBA GL on PD and LGD, Paragraph 171; EGIM, Paragraph 310).  
\* \*\*No MoC in ELBE:\*\* ELBE shall not include any Margin of Conservatism (MoC) to ensure it represents a best estimate (EBA GL on PD and LGD, Paragraph 182; EGIM, Paragraph 310).  
\* \*\*Current Economic Circumstances for ELBE:\*\* ELBE estimates shall reflect current economic circumstances, taking into account relevant economic factors (EBA GL on PD and LGD, Paragraph 183; EGIM, Paragraph 310). Adjustments to LRA LGD for defaulted exposures may be necessary if the model does not inherently capture economic sensitivity (EBA GL on PD and LGD, Paragraphs 184-185).  
\* \*\*LGD in-default:\*\* LGD in-default shall reflect at least downturn conditions and be increased for any additional unexpected losses during the recovery period (EBA GL on PD and LGD, Paragraphs 189-190; EGIM, Paragraph 311).

#### 4.4. Conversion Factors (CCF)

\* \*\*Scope:\*\* IRB-CCFs are used for retail exposures, including residential mortgages, and for non-retail exposure classes where own estimates are permitted, for undrawn revolving commitments not subject to a 100% SA-CCF (EGIM, Paragraph 312).  
\* \*\*Realised CCF:\*\* Realised CCF shall be calculated at the single facility level for each default (EGIM, Paragraph 316). The definition of exposure must be identical to that used for LGD estimation, with consistent treatment of post-default drawings (EGIM, Paragraph 317(b)).  
\* \*\*Downturn CCF:\*\* IRB-CCF estimates shall be appropriate for an economic downturn, characterised by elevated levels of realised CCFs (EGIM, Paragraph 323).

### 5. Appropriate Adjustments and Margin of Conservatism (MoC)

#### 5.1. Identification of Deficiencies

\* The Bank shall identify all deficiencies related to the estimation of risk parameters (PD, LGD, ELBE, LGD in-default) that could bias quantification or increase uncertainty beyond general estimation error. These shall be classified into:  
 \* \*\*Category A:\*\* Identified data and methodological deficiencies (e.g., missing or inaccurate default triggers, outdated data on risk drivers, limited representativeness of external data).  
 \* \*\*Category B:\*\* Relevant changes to underwriting standards, risk appetite, collection and recovery policies, market or legal environment, or forward-looking expectations (EBA GL on PD and LGD, Paragraphs 36-37).

#### 5.2. Appropriate Adjustments

\* Adequate methodologies shall be applied to correct identified deficiencies to achieve the most accurate estimates possible (the "best estimate"). These adjustments may increase or decrease the risk parameter value (EBA GL on PD and LGD, Paragraph 38).  
\* Adjustments shall be documented, justified, and regularly monitored for adequacy (EBA GL on PD and LGD, Paragraphs 39-40).

#### 5.3. Margin of Conservatism (MoC)

\* A MoC shall be added to the best estimate of the risk parameter to reflect the expected range of estimation errors (CRR Article 179(1)(f); EGIM, Paragraph 325).  
\* The final MoC shall reflect the uncertainty in three categories:  
 \* \*\*Category A:\*\* MoC related to data and methodological deficiencies.  
 \* \*\*Category B:\*\* MoC related to relevant changes to underwriting standards, policies, or external factors.  
 \* \*\*Category C:\*\* General estimation error (EBA GL on PD and LGD, Paragraph 42; EGIM, Paragraph 325).  
\* \*\*Quantification:\*\* MoC for Categories A and B shall account for increased uncertainty from adjustments or uncorrected deficiencies. MoC for Category C (general estimation error) shall reflect the dispersion of the statistical estimator (EBA GL on PD and LGD, Paragraph 43; EGIM, Paragraph 327).  
 \* For PD, MoC for statistical uncertainty/sampling error shall be based on the distribution of the estimator (average of one-year default rates), driven by the number of observations and time series length (EGIM, Paragraph 327(a)).  
 \* For LGD and CCF, MoC shall account for statistical uncertainty/sampling error affecting final estimates, based on the distribution of estimators, observations, and time series length (EGIM, Paragraph 327(b)).  
\* \*\*Aggregation:\*\* The final MoC shall be the sum of MoC from Categories A, B, and C (EBA GL on PD and LGD, Paragraph 45).  
\* \*\*Minimum Values:\*\* MoC for Category C shall be greater than zero. MoC for Categories A and B shall be greater than or equal to zero (EBA GL on PD and LGD, Paragraph 47).  
\* \*\*Documentation and Monitoring:\*\* MoC levels shall be documented, regularly monitored, and justified. Plans shall be developed to rectify deficiencies and reduce estimation errors (EBA GL on PD and LGD, Paragraphs 49-50).

### 6. Model Performance Assessment

#### 6.1. Internal Validation

\* \*\*Frequency:\*\* All internal models and estimates shall be subject to an initial and subsequently an annual internal validation (EGIM, Paragraph 18; EBA GL on PD and LGD, Paragraph 218). For material rating systems, a full validation shall be performed at least once every three years (EGIM, Paragraph 52(g)).  
\* \*\*Independence:\*\* The internal validation function shall be effectively independent from the model development process, with appropriate organisational arrangements (EGIM, Paragraphs 19-23).  
\* \*\*Content:\*\* Validation shall assess model performance through qualitative and quantitative methods, including back-testing, discriminatory power, representativeness analyses, stability analyses, model specification/design stability, input data evaluation, benchmarking, data cleansing, and quality assurance of computer codes (EGIM, Paragraph 52).  
 \* For residential mortgage models, benchmarking analyses shall compare with up-to-date data from representative and comparable external data sources (EGIM, Paragraph 52(viii)).  
\* \*\*Reporting and Follow-up:\*\* Validation conclusions and recommendations shall be reported to Senior Management and the Management Body, with clear processes for decision-making and tracking remediation actions (EGIM, Paragraphs 56-59).

#### 6.2. Internal Audit

\* Internal models shall be subject to regular review by Internal Audit, at least annually (EGIM, Paragraph 25; EBA GL on PD and LGD, Paragraph 218).  
\* \*\*Independence:\*\* Internal Audit shall be independent from the processes and units reviewed, reporting directly to the Management Body (EGIM, Paragraph 26).  
\* \*\*Scope:\*\* The annual review shall include a general risk assessment of all aspects of the rating systems, leading to an audit work plan. Deep dives shall be performed for high-risk areas or at least every three years for other areas (EGIM, Paragraphs 62-63). This includes assessing the development and performance of rating systems, model use, materiality classification, data quality, and the integrity of the rating assignment process (EGIM, Paragraph 64).

#### 6.3. Review of Estimates

\* Estimates shall be reviewed whenever new information comes to light, and at least annually (CRR Article 179(1)(c); EGIM, Paragraph 328; EBA GL on PD and LGD, Paragraph 218).  
\* \*\*Scope:\*\* Reviews shall include analysis of data representativeness, model performance and stability, and predictive power. This involves comparing current data with the RDS, assessing changes in discriminatory power, and analysing the impact of recent data on LRA PD, LRA LGD, and downturn LGD (EGIM, Paragraph 330; EBA GL on PD and LGD, Paragraph 218).  
\* \*\*Human Judgement Impact:\*\* The impact of human judgement on risk differentiation capability shall be assessed (EGIM, Paragraph 333; EBA GL on PD and LGD, Paragraph 206).

### 7. Data Management and IT Systems

#### 7.1. IT Infrastructure and Implementation

\* Robust, well-documented, and adequately tested IT systems are essential (EGIM, Paragraph 116). This includes documentation of data flow, sources, IT systems, databases, and audit trails for critical systems (EGIM, Paragraph 120).  
\* For new models or material changes, the Bank shall provide evidence of implementation in a live or non-live production environment, including successful user acceptance tests and readiness for regulatory reporting and internal risk management (EGIM, Paragraphs 121-122).  
\* A consistent process for testing relevant IRB systems and applications (unit, integration, system, user acceptance, regression tests) shall be in place upon first implementation and ongoing (EGIM, Paragraphs 123-125).

#### 7.2. Data Quality Management Framework

\* An effective data quality management framework, formalised in policies and procedures, shall be established for all IRB-related data (internal, external, pooled) (EGIM, Paragraph 130).  
\* \*\*Data Quality Dimensions:\*\* This framework shall cover completeness, accuracy, consistency, timeliness, uniqueness, validity, availability, and traceability across the entire data lifecycle (EGIM, Paragraph 137).  
\* \*\*Controls and Remediation:\*\* Indicators, tolerance levels, and thresholds shall be set to monitor compliance, supported by effective data quality checks and controls. A process for identification and remediation of data quality deficiencies shall be in place (EGIM, Paragraphs 139-142).  
\* \*\*Reporting:\*\* Formal reporting on data quality shall be submitted to Senior Management and the Management Body at least quarterly (EGIM, Paragraphs 143-145).

### 8. Management of Model Changes

\* A comprehensive "change policy" shall be established, detailing criteria for materiality assessment, classification (material, ex-ante non-material, ex-post non-material), impact assessment, notification, and documentation of changes and extensions to IRB models (EGIM, Paragraphs 96-98).  
\* \*\*Materiality Classification:\*\* The policy shall ensure consistency and prevent arbitrage by clearly defining metrics and significance levels for changes in RWEAs, distribution across grades, and rank ordering (EGIM, Paragraph 98(b)).  
\* \*\*ML-based Model Changes:\*\* The change policy shall explicitly define what constitutes a change for ML-based models, clarifying implications for qualitative criteria and distinguishing between model changes and maintenance (EGIM, Paragraph 38). An initial switch to a mostly ML-based approach is generally a material change (EGIM, Paragraph 39).  
\* \*\*Re-rating Process:\*\* The policy shall ensure that, for material changes, former ratings and estimates are replaced by new ones using the changed model from the implementation date. If immediate re-rating is not possible (e.g., for non-retail residential mortgages requiring manual input), a re-rating process within 12 months is allowed, with RWEA impact applied if a material increase is expected (EGIM, Paragraphs 111-114).

### 9. Third-Party Involvement

\* Outsourcing of internal model-related tasks (e.g., data provisioning, model development, validation support) shall comply with all legal requirements and the Bank's internal guidelines (EGIM, Paragraph 80).  
\* \*\*Contractual Requirements:\*\* Formal contracts shall ensure supervisory access to information, support from the third party, and the Bank's maintenance of sufficient in-house knowledge (EGIM, Paragraph 81).  
\* \*\*In-house Knowledge:\*\* The Bank shall maintain adequate in-house knowledge and core competence for outsourced tasks, as it retains ultimate responsibility (EGIM, Paragraph 87). This includes understanding methodologies, data, and having access to information for independent validation (EGIM, Paragraph 89).  
\* \*\*Pooled Data:\*\* When using pooled or external data for residential mortgage model development or calibration, the Bank shall assess the representativeness of the pooled portfolio to its own, for both risk differentiation and quantification purposes (EGIM, Paragraph 90(b)). The definition of default applied to pooled data must be understood (EGIM, Paragraph 90(c)).  
\* \*\*Independent Monitoring:\*\* The Bank shall independently monitor the performance of third parties, applying the same standards as for in-house tasks (EGIM, Paragraph 91). This includes data quality checks and adherence to SLAs (EGIM, Paragraph 92).

This policy document serves as a foundational framework for the Bank's IRB model development for residential mortgage portfolios, ensuring compliance with evolving regulatory requirements and fostering a robust credit risk management environment.