



WRITTEN NOTICE: IRB PERMISSION

To: **Principality Building Society (FRN 155998)**

Ref: **00001592**

Of: **PO Box 89
Principality Buildings
Queen Street
Cardiff
CF10 1UA**

Date: **9 October 2020**

DECISIONS

1. On 4 September 2013, Principality Building Society 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 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 Principality Building Society 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”).
2. Further to Article 101 and 104 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the “CRD”) 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.
3. If the firm 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/or 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 9 October 2020.

PROCEDURAL MATTERS

5. If the firm wishes to challenge the decisions taken by the PRA in relation to the IRB Permission, the firm may refer the matter to the Upper Tribunal.



6. Details of the IRB Permission and the related requirements sought under section 55M(5) of the Act will be published on the Financial Services Register.
7. Further details of procedural matters are contained in Annex 3.

Shoib A Khan
Head of Division
UK Deposit Takers



ANNEX 1

THE INTERNAL RATINGS BASED PERMISSION

Legal Entities

1. The IRB Permission means that the firm may for the legal entities listed below, on a solo, sub-consolidated and/or 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. Principality Building Society on an individual basis.
2. In accordance with Article 143(3) of the CRR, the firm 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 firm 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 34821) comprising its IRB application documentation, as modified by all changes and specifications notified to the firm by the PRA, including those specified in this IRB Permission Notice, all changes and extensions notified by the firm 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 firm 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 article 149

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

Reversion to CRR article 151(8) LGD/Conversion factors under CRR article 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 155

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



Maturity under article 162 of the CRR

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

Definition of default

10. 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 168

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

Eligible collateral under CRR Article 199

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

Further specifications

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

Material, significant and other changes

14. In accordance with Article 143(3), (4) of 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),

- (1) the firm 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 firms must notify the PRA of all changes to ratings systems and internal models approaches to equity exposures subject to the IRB Permission.

15. 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 firm[s] 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 on central governments and central banks	N/A	N/A		
Exposures on institutions	N/A	N/A		
Exposures on corporates	Secured/Development and Investment lending on real estate	UK		
Retail exposures	Mortgage (Prime)	UK		
	Mortgage (sub-prime /non-performing / Buy to Let / Others)	UK		
Equity exposures	N/A	N/A		
Securitisation positions	N/A	N/A		
Non credit-obligation assets	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))	Exposure to Central Governments and Central Banks	Bank of England Sovereigns and institutions



Exposures to institutions (CRR Article 150(1)(b))	Exposures to institutions	Derivative financial instruments
Non-significant businesses or immaterial exposure classes or exposure types (CRR Article 150(1)(c))	Mortgages (Housing Association) Mortgage (second charge) Items representing securitisation positions	Principality Commercial Nemo Personal Finance Securitisations (RMBS)
Exposures on central governments and central banks, etc. in Member States (CRR Article 150(1)(d))	N/A	N/A
Other	N/A	N/A



ANNEX 2

REQUIREMENTS RELEVANT TO THE IRB PERMISSION THAT FIRMS HAVE APPLIED FOR AND THE PRA HAS IMPOSED UNDER S55M(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

PROCEDURAL MATTERS

Decision-Maker

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

The Tribunal

2. The firm 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 firm has 28 days from the date on which this Written Notice is given to the firm 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 firm 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 firm 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 Caroline O'Loughlin at the PRA, 20 Moorgate, London EC2R 6DA.

PRA contacts

5. For more information concerning this matter generally, the firm should contact Caroline O'Loughlin on 020 3461 8745.



Annex 4

VERSION CONTROL SCHEDULE

NOTICES OF MATERIAL CHANGES AND EXTENSIONS TO IRB PERMISSION

Version	Comment	Authorisation	Date
1.0	IRB Permission granted	David Eacott (PRA)	04/09/13
2.0	IRB permission grandfathered under CRR	Dickon Brough (PRA)	31/12/13
3.0	IRB permission varied as follows: • Roll-out plan for the second charge mortgage portfolio in the subsidiary Nemo postponed indefinitely following the decision to close the operation and let the assets run off.	Martin Stewart (PRA)	16/04/16
4.0	Permission Notice restated	Shoib Khan (PRA)	09/10/20