



Direction

To: Principality Building Society ("the principal firm"),

which on a solo basis includes Nemo Personal Finance Ltd. and LoanLink Ltd. (pursuant to the principal firm's *solo consolidation waiver*)

Ref: 1661544

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

Date: 4 September 2013

Handbook Version as in force at the date of this Direction

Power

1. This direction is given by the *PRA* under section 138A of the *Act*

Duration

2. This direction takes effect on 4 September 2013

Rules Waived/Modified

3. The *PRA* directs that the *rules* listed below apply to the firm with the modifications shown.

Chapter/Rule	Modification/Waiver
GENPRU 2.1.51R	The <i>rule</i> is modified as follows A BIPRU firm <u>principal firm</u> must calculate its credit risk capital requirement 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> <u>(4) for exposures covered by the <i>IRB permission</i> (as set out in Schedule 1 of the <i>IRB permission</i>), the principle firm must calculate its <i>credit risk capital requirement</i> and, to the extent that the relevant Handbook 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 <i>IRB permission</i>;</u> <u>(5) the principal firm must comply with the other requirements in the <i>IRB permission</i>; and</u>



Chapter/Rule	Modification/Waiver						
	(6) the <i>IRB permission</i> means direction number 1661544 issued on 4 September 2013 and a “principal firm” means the same thing as it does in that direction.						
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 approach</i> is applied"						
BIPRU 8.8.1R	The <i>rule</i> is modified by inserting the following at the end of the <i>rule</i> : "(1) A <i>firm</i> must use each of the <i>advanced prudential calculation approaches</i> listed in the table in BIPRU 8.8.1A 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."						
BIPRU 8.8.	The following table is inserted immediately after BIPRU 8.8.1R. "BIPRU 8.8.1AR: Table: Permissions to use advanced approaches This table belongs to BIPRU 8.8.1R <table><tr><th>Advanced prudential calculation approach</th><th>Scope</th><th>Additional requirements and restrictions</th></tr><tr><td>IRB approach</td><td>(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> (2) Applies to exposures set out in Schedule 1 of the permission as applied on the basis of the principal firm's <i>solo consolidation waiver</i>.</td><td>A firm must comply with the requirements of the permission as applied on a consolidated basis.</td></tr></table> The "permission" means direction number 1661544 issued on 4 September 2013 to Principality Building Society; and “the principal firm's <i>solo consolidation waiver</i>” means the concession within the meaning of BIPRU TP22.8 dated 13 December 2006	Advanced prudential calculation approach	Scope	Additional requirements and restrictions	IRB approach	(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> (2) Applies to exposures set out in Schedule 1 of the permission as applied on the basis of the principal firm's <i>solo consolidation waiver</i> .	A firm must comply with the requirements of the permission as applied on a consolidated basis.
Advanced prudential calculation approach	Scope	Additional requirements and restrictions					
IRB approach	(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> (2) Applies to exposures set out in Schedule 1 of the permission as applied on the basis of the principal firm's <i>solo consolidation waiver</i> .	A firm must comply with the requirements of the permission as applied on a consolidated basis.					



Guidance

4.1 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 firms and where this is the case this is indicated.

4.2 As set out in SUP 8, the firm must notify the PRA 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 PRA by the firm.

4.3 Any changes to any of Schedules 1-3 of this direction will require a variation of this direction.

4.4 As part of the supervisory process, the *PRA* will from time to time reissue Schedule 5. 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

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

A handwritten signature in black ink, appearing to read 'D Eacott', with a long horizontal stroke extending to the right.

David Eacott
UK Banks & Mutuels
Prudential Regulation Authority



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

The PRA has granted recognition for the use of the IRB approach for categories of exposure identified in table 1 below (boxes containing a tick) with the exception of the permanent exemptions in table 2. Exposures that do not apply to the firm are left blank.

Table 1

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



Table 2

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>)	Treasury assets.	Liquidity portfolio and interest rate derivatives used for hedging purposes.	Liquid Assets
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>)	Mortgages	Housing Association	Fully secured loans to Housing Associations.
Other (As referred to in <i>BIPRU 4.1.23 R (1)</i> and <i>BIPRU 4.2.26 R (5)-(10)</i>)	Not applicable	Not applicable	Not applicable



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:

Not applicable

Note. If the firm uses its own estimates of *LGD* and conversion factors it may only take into account *unfunded credit protection* to reduce *LGD* in the manner set out in its *IRB permission* (see BIPRU 4.1.23 R (3)).

2. The firm may only recognise the effects of financial collateral under BIPRU 10.6.71 R in the following manner:

Not applicable

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*, must satisfy the *PRA* 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 4.7.3 R) :

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

4. The firm may 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 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 price 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 *PRA* as soon as possible should they think they are not able to roll out in accordance with the plan before the end of window.

<i>Exposure Class</i>	Portfolio	Description	Planned Implementation Window		For Information: PRA review to take place before roll-out (Tick if applicable)
			Start of Window	End of Window	
Retail claims or contingent retail claims	Mortgage other – Second-charge	Nemo	2013	Q1 2014	✓



Schedule 4: Reporting Requirements

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

Reporting requirements

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

1. The firm must inform the *PRA* 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,
- alterations to the roll-out plan,
- any other significant event affecting the rating systems.

Any material changes to one or more of the above must be notified to the *PRA* 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 in advance of their occurring in order to allow *PRA* to have an opportunity to review the rating system prior to live introduction.

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



Schedule 5 (Version control)

Guidance – this table is used to maintain an audit trail of the evolution of 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	Draft sent to Principality Building Society for comment		12 August 2013
1.1	Final version		4 September 2013

