Nemo Personal Finance Limited

Annual report for the year ended
31 December 2020

Registered Number: 05188059

Annual report
for the year ended 31 December 2020

Contents

Officers and professional advisers

Directors	I A Mansfield T Denman
Secretary	M Borrill
Registered office	Principality Buildings Queen Street Cardiff Wales CF10 1UA
Bankers	Barclays Bank Plc 3rd Floor Windsor Court Windsor Place Cardiff Wales CF10 3BX
Solicitors	Eversheds Sutherland LLP 1 Callaghan Square Cardiff Wales CF10 5BT
Auditors	Deloitte LLP 5 Callaghan Square Cardiff Wales CF10 5BT

Strategic report for the year ended 31 December 2020

Nemo Personal Finance Limited continued to perform as expected, fulfilling an important role within the Principality Building Society group.

The Company ceased accepting new business in March 2016. Following a successful transition from lender to servicer, the business has delivered a solid set of results in 2020, continuing to focus on delivering good customer outcomes and robust cost management.

Key performance indicators

Year ended 31 December	2020	2019
Profit before tax (£000' s)	10,498	13,046
Profit before tax as a % of mean total assets	6.5%	6.3%
Total assets (£000' s)	141,116	179,519
Change in total assets	(21.4)%	(24.1)%
Non-performing loans (6+ months in arrears) (£000' s)	7,131	4,603
Non-performing loans (6+ months in arrears) (volume)	235	151
Yield % (average interest rate across the loan book)	8.7%	9.0%

Business review

The Company saw a reduction in profit in 2020, with profit before tax of £10.5m (2019: £13.0m). A year on year decline was anticipated due to the continued reduction in the size of the loan book.

Loans in the portfolio continue to perform well overall, albeit the performance during 2020 has been impacted by challenging economic conditions arising from the COVID-19 pandemic, which has left some borrowers unable to meet their loan commitments. The Company offers a range of account management and forbearance options for borrowers. During 2020, as mandated by the Financial Conduct Authority, these options were expanded to include up to 6 months payment deferrals for borrowers impacted by COVID-19.

Provision levels have been reviewed with consideration given to the future economic outlook which continues to be dominated by the pandemic. Whilst the volume of 6+ arrears customers has increased year on year, this is in part due to the moratorium on possessions which has been in place for much of 2020 and is resulting in some borrowers remaining in arrears for longer. In contrast, the percentage of customers one month in arrears has reduced to 2.7% (2019: 4.3%).

The number of borrowers on payment deferrals due to COVID-19 have reduced to 130 at 31 December 2020 compared with over 1,000 at the peak of the first lockdown. This arrears performance across the portfolio and continued run-off of the book has led to a reduction in the impairment provision held to £5.9m (2019: £6.5m), even after taking into account expected increases in unemployment and falls in house prices over the next twelve months.

Principal risks and uncertainties

The Company's operations expose it to a variety of financial and non-financial risks that include the effects of credit risk, conduct risk, liquidity risk and operational risk.

The key risks to the Company are linked to the overall performance of the economy which we expect to continue to be impacted by the effects of the COVID-19 pandemic and the resultant effect on interest rates, unemployment and house price indices, together with customer and conduct risks. Overall risk is managed in line with the Parent's policy and further information on this can be found in the Principality Building Society financial statements in the Risk Overview section of the Strategic Report.

Strategic report
for the year ended 31 December 2020 (continued)

Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet their financial obligations to the Company as they become due. Credit risk policies were in place to reduce the risk of lending to retail customers who may be unable to afford to repay the loans. The credit risk policy had a number of criteria in relation to income, debt to income ratio, loan to value ratio and credit score to minimise the credit risk.

Conduct risk

Conduct risk is the risk that the Company does not treat its customers fairly, resulting in inappropriate or unfair outcomes. The sustainability of the Company's business model and the achievement of its strategy are dependent upon the consistent and fair treatment of customers. Furthermore, the regulatory regime in the UK continues to highlight the importance of firms' conduct and their approach to deliver fair customer outcomes. Consequently, the Company continues to focus on its risk and control framework to manage conduct risks. Oversight is provided by the Group's Board Risk Committee and the Group's Compliance and Conduct function.

Liquidity risk

Liquidity risk is the risk that the Company has insufficient funds to meet its obligations as and when they fall due. The Parent monitors risk exposure and the reporting of liquidity risk takes the form of cash flow measurement. Sources of liquidity are regularly reviewed by the Finance Committee.

Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, systems, human error or from external events.

The Parent has an established operational risk management framework which is utilised to identify, assess and monitor operational risk, including fraud, system failure, cyber threats and business continuity. The assessment of exposure to operational risks is based on both quantitative and qualitative considerations. Appropriate strategies are in place to manage and mitigate the risks that could impact the Company's ability to meet its business objectives whilst protecting its reputation. The crystallisation of operational risks is captured through the recording of operational losses and near misses. The analysis of loss events is used to identify any potential systemic weaknesses in operational processes. Oversight is provided by the Operational Risk Committee.

Future developments

Total assets and profits are expected to continue to reduce over time as the loan book runs off. The focus of the business will remain on providing a high level of service to customers whilst housekeeping the portfolio and managing the risks to which the Company is exposed.

Approved by the Board

I A Mansfield
Director
19 February 2021

Directors' report for the year ended 31 December 2020

The Directors present their report and the financial statements of the Company for the year ended 31 December 2020.

Principal activities

The principal activity of the Company is loan servicing.

Dividends and transfer to reserves

The results for the period are set out in the income statement. The Directors do not recommend the payment of a dividend (2019: £nil).

Going concern

The Parent, Principality Building Society, prepares forecasts, projections and scenario testing which includes Nemo Personal Finance Limited. These are carried out in accordance with the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). These processes are required by the regulators to demonstrate appropriate levels of capital and liquidity under stressed conditions. These take account of possible changes in trading performance, including consideration of the potential effects of the ongoing COVID-19 pandemic, and show that the Parent will be able to operate within the sources of funding currently available to it.

The Parent monitors its liquidity levels to ensure that an appropriate level of resources is maintained to meet the requirements of the business. These are assessed under a number of stressed scenarios reflecting the Directors' views of different risks that might arise under current economic conditions.

As presented in the statement of financial position, the Company has financial resources, including an intercompany loan from its Parent, which the Parent has confirmed it will not seek repayment in the next 18 months, to meet its day-to-day working capital requirements. The Company's forecasts, taking into account reasonable possible changes in trading performance, show that the Company will be able to operate within the sources of funding currently available to it.

Having considered the plans and forecasts for the Company and events up to and including the date of signing, the Directors believe that there are no material uncertainties that cast significant doubt on the Company's ability to continue in business for the foreseeable future. Accordingly, the financial statements continue to be prepared on a going concern basis.

Future developments and financial risk management objectives and policies have been disclosed within the Strategic Report on pages 4-5.

Directors

The current Directors of the Company are as shown on page 3.

The Company has made qualifying third party indemnity provisions for the benefit of its directors which remain in force at the date of this report.

Directors' report
for the year ended 31 December 2020 (continued)

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor

All Directors at the time of approving this report confirm the following:

(a) so far as each Director is aware, there is no information of which the Company's auditor is unaware, and

(b) each Director has taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information, and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and the Board of Directors has resolved that Deloitte LLP should be reappointed.

Approved by the Board

I A Mansfield
Director
19 February 2021

Independent Auditor's report to the members of Nemo Personal Finance Ltd

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Nemo Personal Finance Limited (the 'company')

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of changes in shareholders' equity;
- the statement of financial position;
- the statement of cash flows; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC' Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's report to the members of Nemo Personal Finance Ltd (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Independent Auditor's report to the members of Nemo Personal Finance Ltd (continued)

We considered the nature of the company¡¦s industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, tax legislation and the Financial Conduct Authority guidelines; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company¡¦s ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, IT and credit risk specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Independent Auditor's report to the members of Nemo Personal Finance Ltd (continued)

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kieren Cooper (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Cardiff, United Kingdom
19 February 2021

Income statement
for the year ended 31 December 2020

Continuing operations:	**Notes**	**2020 £'000**	**2019 £'000**
Interest receivable and similar income	4	12,607	16,187
Interest payable and similar charges	5	(3,534)	(5,659)
Net interest income		**9,073**	**10,528**
Fees and commissions receivable		58	97
Net income		**9,131**	**10,625**
Impairment gain on loans	10	633	3,716
Regulatory provisions	12	1,124	-
Operating expenses		(390)	(1,295)
Profit before taxation	6	**10,498**	**13,046**
Income tax expense	8	(2,250)	(2,225)
Profit for the financial year		**8,248**	**10,821**

There are no items of other comprehensive income and therefore no Statement of Other Comprehensive Income has been prepared.

The accounting policies and notes on pages 15 to 34 form part of these accounts.

Statement of changes in shareholders' equity for the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Profit for the financial year		8,248	10,821
Net increase to shareholders' equity		**8,248**	**10,821**
Opening shareholders' equity at 1 January		105,660	94,839
Closing shareholders' equity		**113,908**	**105,660**

The capital of the Company comprises the called up share capital and retained profit, together shareholders' equity.

The accounting policies and notes on pages 15 to 34 form part of these accounts.

Statement of financial position as at 31 December 2020

	Notes	2020 £'000	2019 £'000
Assets			
Loans and receivables	10	141,108	179,480
Deferred sale consideration	20	8	15
Deferred tax	14	-	46
Property, plant and equipment	9	-	81
Total assets		**141,116**	**179,622**
Liabilities			
Trade and other payables	11	381	1,377
Regulatory provisions	12	1,510	2,695
Short-term loans and overdrafts	13	343	348
Current tax		1,070	1,049
Deferred tax	14	15	-
Loan from parent company	13	23,890	68,493
Total liabilities		**27,209**	**73,962**
Equity			
Called up share capital	15	100	100
Retained profit		113,808	105,560
Total equity		**113,908**	**105,660**
Total equity and liabilities		**141,116**	**179,622**

The financial statements of Nemo Personal Finance Limited, registered number 05188059, on pages 11 to 34, were approved by the Board of Directors and authorised for issue on 18 February 2021.

I A Mansfield
Director
19 February 2021

Statement of cash flows
for the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Net cash inflow from operating activities:			
Cash from operating activities (see below)		44,968	66,971
Net cash from operating activities		**44,968**	**66,971**
Cash flows used in financing activities:			
Repayment of loan advanced by parent company	19	(44,602)	(66,688)
Lease payments following IFRS 16 adoption		(361)	(344)
Net cash used in financing activities		**(44,963)**	**(67,032)**
Net increase/(decrease) in cash and cash equivalents		5	(61)
Cash and cash equivalents at start of year		(348)	(287)
Cash and cash equivalents at end of year		**(343)**	**(348)**
Cash and cash equivalents comprise:			
Short-term loans and overdrafts		**(343)**	**(348)**

Net cash inflow from operating activities:			
Profit for the year before tax	8	10,498	13,046
Adjusted for:			
Depreciation	6	81	123
Decrease in provision for impairment		(633)	(2,398)
Decrease in regulatory provisions		(1,185)	(590)
Decrease in loans and receivables		39,005	59,266
Decrease in deferred sale consideration		6	34
Decrease in trade and other payables		(636)	(217)
Tax paid		(2,168)	(2,293)
Net cash inflow from operating activities		**44,968**	**66,971**

Notes to the financial statements for the year ended 31 December 2020

1. Accounting policies

Basis of preparation

Nemo Personal Finance Limited is a private company limited by shares. The Company's financial statements for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union (EU). The financial statements are prepared under the historical cost convention except for certain financial assets held at fair value.

The financial statements have been prepared on a going concern basis. This is discussed in the Directors' Report on page 6, under the heading 'Goingconcern'.

Impact of standards issued but not yet applied

At the date of authorisation of these financial statements, a number of new standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective. None of these changes are expected to have a significant impact on the Company's financial statements.

Accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except where stated below.

(a) Revenue

Revenue primarily comprises interest receivable on customer loans outstanding. All revenue is derived in the UK.

Interest

Interest income or expense is recognised on all interest-bearing financial assets classified as loans and receivables, and on financial liabilities, using the effective interest method.

The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the instrument. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

Fees and commissions payable are included in the calculation of the effective interest rate to the extent that they can be measured and are considered to be an integral part of the effective interest rate. The effective interest rate calculation therefore recognises commissions payable on day one to third parties for the introduction of loans and advances to customers; interest earned on loans settled earlier than the contractual maturity date; and other cash flows arising from the direct and incremental costs of issuing financial instruments over the expected life of the financial instrument.

Notes to the financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

(b) Classification and measurement of financial instruments

Financial assets

Financial assets comprise customer loans and receivables and deferred sale consideration.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Thereafter, financial assets are classified and measured in one of the three following measurement categories:

- those to be measured at amortised cost;
- those to be measured subsequently at fair value through other comprehensive income (FVOCI); or
- those to be measured subsequently at fair value through profit or loss.

The classification and subsequent measurement of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows.

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest method, net of provision for impairment. Interest earned from these financial assets is included in interest receivable and similar income. Impairment losses are presented as separate line item in the income statement.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in fair value are taken through OCI and, on derecognition, the cumulative gain or loss previously recognised in OCI is reclassified to the income statement. Interest is recognised using the effective interest method and included in interest receivable and similar income.
- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL.

Financial liabilities

Financial liabilities comprise short-term loans and overdrafts and long-term loans and are measured at fair value on initial recognition and thereafter at amortised cost using the effective interest method.

Notes to the financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

(c) Impairment losses on loans and receivables

In accordance with IFRS 9, the Company uses a three stage model for impairment based on changes in credit quality since initial recognition. Each stage represents a change in the credit risk of a financial instrument since origination. Credit risk is measured using probability of default (PD), exposure at default (EAD) and loss given default (LGD). If a significant increase in credit risk (SICR) since initial recognition is identified but the asset is not yet deemed to be credit impaired, the financial instrument is moved from stage 1 to stage 2. Financial instruments that are deemed to be credit impaired are moved to stage 3. This assessment is performed on a monthly basis.

Financial instruments in stage 1 have their expected credit loss (ECL) measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Financial instruments in stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

Significant increase in credit risk

There are three main components to the staging criteria for the loan portfolio. In order to move from stage 1 to stage 2 a loan is required to meet at least one of the following criteria:

- Forbearance activity;
- PD grade deterioration over a predetermined threshold relative to the starting point; and
- 30 days past due.

Loans are moved from stage 2 to stage 3 when they are credit impaired. Loans are considered to be credit impaired if they are 90 days past due or the borrower has been declared bankrupt.

Subject to the characteristics of the borrower, a loan will move back from stage 2 or 3 following a reversal of the criteria described above.

Expected Credit Loss (ECL) models

Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- PD is the likelihood of a borrower defaulting on its financial obligation either in the next 12 months or over the remaining lifetime of the obligation.
- EAD is based on the amounts the Company expects to be owed at the time of default.
- LGD represents the Company's expectation of the extent of loss on defaulted exposures.

The PD is calculated via a behavioural scorecard approach, using internal account level specific data including arrears history and external credit profile data provided by credit reference agencies.

Forward-looking information in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward looking information. The Company has performed historical analysis and identified the economic variables impacting credit risk and expected credit losses for each portfolio. Forecasts of these economic variables together with probability weightings are supplied by an external provider. Economic scenarios are selected which take account of a range of possible economic outcomes.

Notes to the financial statements for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

(d) Cash and cash equivalents

For the purposes of the cash flow statement and statement of financial position, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, other amounts due from banks and short-term government securities. For the purposes of the cash flow statement, the cash and cash equivalents balance is stated net of short-term loans and overdrafts.

(e) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

(f) Taxes, including deferred taxes

Tax payable on taxable profits ("current tax") is recognised as an expense in the period in which the profits arise. Tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits. payable on taxable profits ("current tax") is recognised as an expense in the period in which the profits arise. Tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

Deferred tax is provided in full, using the liability method, on temporary timing differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and legislation enacted or substantively enacted by the statement of financial position date and is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. tax is provided in full, using the liability method, on temporary timing differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and legislation enacted or substantively enacted by the statement of financial position date and is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously

Notes to the financial statements
for the year ended 31 December 2020 (continued)

2. Judgements in applying accounting policies and critical accounting estimates

The preparation of these financial statements involves making judgements in the application of accounting policies which affect the amounts recognised. In addition, critical accounting estimates are made that could have a significant impact on the reported amounts of assets and liabilities within the next financial year and beyond.

The critical judgements and the most significant areas where accounting estimates are made are as follows:

a) Critical judgements

As described in note 1(c), one of the primary tests for determining whether a loan has experienced a significant incease in credit risk is PD grade deterioration over a predetermined threshold relative to the starting point, expressed as a percentage increase.

Management judgement is applied in determining the thresholds to use in the assessment. The aim of the approach is to allow for the movement of loans through the stages in sequential order, such that loans entering stage 3 and default should ordinarily be expected to originate from the stage 2 population. During the year refinements were made to the PD model to more closely align the relationship between lifetime PD and the forward-looking economic scenarios.

Sensitivity analysis has been performed on the staging criteria. A 10% variance has been selected as this is deemed to be the maximum variation likely to occur over a 12 month period in the current economic environment. The impact of 10% of the loans currently in stage 1 moving to stage 2 and progressing into arrears, and the impact of 10% of loans currently in stage 2 moving to stage 1 are as follows:

Stage	£'000
Stage 1 to stage 2	674
Stage 2 to stage 1	(147)

b) Significant accounting estimates

Impairment provision on loans and receivables

The significant accounting estimates applied in determining expected credit loss provisions are forward-looking economic variables and the number and probability weightings of the macro-economic scenarios used.

The IFRS 9 models calculate expected credit losses for each of the scenarios and then apply the relative weightings of the forward-looking economic scenarios to generate the weighted output for each model.

The scenarios consist of the following forecasts between December 2020 to December 2025:

GDP Growth %	Weighting at 31 December 2020 %	2021 %	2022 %	2023 %	2024 %	2025 %
Base	32.5	8.8	8.0	5.1	2.8	2.5
Upside	30.0	13.0	7.3	5.9	3.7	2.6
Downside	23.0	4.7	8.3	5.1	3.1	2.6
Severe downside	14.5	(0.1)	6.4	3.8	2.3	2.3
Weighted average		**7.8**	**6.8**	**6.0**	**5.5**	**5.3**

Notes to the financial statements
for the year ended 31 December 2020 (continued)

2. Judgements in applying accounting policies and critical accounting estimates (continued)

Unemployment (Absolute)	Weighting at 31 December 2020 %	2021 %	2022 %	2023 %	2024 %	2025 %
Base	32.5	7.8	6.8	6.0	5.5	5.3
Upside	30.0	6.8	5.7	5.1	4.8	4.7
Downside	23.0	8.8	8.0	7.0	6.3	5.9
Severe downside	14.5	10.5	10.2	8.9	8.1	7.4
Weighted average		**8.1**	**7.3**	**6.4**	**5.9**	**5.6**

HPI Growth %	Weighting at 31 December 2020 %	2021 %	2022 %	2023 %	2024 %	2025 %
Base	32.5	(8.1)	2.3	6.9	6.7	4.1
Upside	30.0	(1.6)	7.5	6.7	5.8	4.0
Downside	23.0	(12.5)	3.0	8.9	9.3	6.3
Severe downside	14.5	(20.2)	(3.9)	6.1	10.3	9.4
Weighted average		**(8.9)**	**3.1**	**7.2**	**7.6**	**5.3**

The equivalent scenarios at 31 December 2019 were as follows:

GDP Growth %	Weighting at 31 December 2019 %	2020 %	2021 %	2022 %	2023 %	2024 %
Base	45.0	3.3	3.2	3.5	3.6	3.9
Downside	25.0	(0.1)	2.2	3.9	4.4	4.3
Stagflation	15.0	2.1	1.0	2.2	4.5	4.9
Severe downside	15.0	(5.7)	(1.2)	2.5	4.7	5.4
Weighted average		**0.9**	**1.9**	**3.3**	**4.1**	**4.4**

Unemployment (Absolute)	Weighting at 31 December 2019 %	2020 %	2021 %	2022 %	2023 %	2024 %
Base	45.0	4.2	3.2	3.5	3.6	3.9
Downside	25.0	5.0	2.2	3.9	4.4	4.3
Stagflation	15.0	4.7	6.2	6.9	6.9	6.6
Severe downside	15.0	6.0	7.8	8.2	8.1	7.5
Weighted average		**4.8**	**5.4**	**5.7**	**5.7**	**5.6**

Notes to the financial statements
for the year ended 31 December 2020 (continued)

2. Judgements in applying accounting policies and critical accounting estimates (continued)

HPI Growth %	Weighting at 31 December 2019 %	2020 %	2021 %	2022 %	2023 %	2024 %
Base	45.0	1.4	0.6	1.1	1.1	1.8
Downside	25.0	(1.0)	(3.1)	0.9	2.3	3.0
Stagflation	15.0	(1.2)	(4.8)	(3.8)	2.0	5.0
Severe downside	15.0	(6.3)	(11.8)	(4.5)	2.3	5.9
Weighted average		**(0.7)**	**(3.0)**	**(0.6)**	**1.7**	**3.2**

For 2020 the scenarios were reviewed and the decision taken to replace the stagflation scenario with an upside scenario and to revise the weightings, based on an assessment of the most likely future potential outcomes.

Sensitivity analysis has been performed on the impact of the economic scenarios. The range of ECL impact between the most optimistic scenario and the most severe scenario is £4.5m (2019: £5.9m). The ECL range is the difference between applying a 100% weighting to the most severe downturn scenario and the most optimistic scenario.

Regulatory provisions
Regulatory provisions have been made in respect of various customer claims. At 31 December 2020, the Company held a provision of £1,510k (2019: £2,695k). This reflects management's best estimate of the costs required to settle its remaining obligations and takes account of expected customer behaviour; costs incurred with associated legal claims; and an updated assessment of the remaining exposure population.

Although a significant degree of uncertainty remains with regard to the ultimate cost of settling customer claims, the provision balance is expected to be sufficient to meet any remaining obligations. The provision will continue to be monitored and customer trends and behaviour analysed in order ensure the provision remains appropriate.

3. Operating segments

The Company operates a single material operating segment, secured personal lending. The Company operates entirely within the UK and therefore a geographical segment analysis is not required.

4. Interest receivable and other similar income

Interest income consists of interest receivable on customer loans and early settlement interest, less origination costs and commissions payable to third parties for the introduction of loans and advances to customers.

5. Interest payable and similar charges

Interest expense consists of interest and other charges payable on funding from the Parent.

Notes to the financial statements
for the year ended 31 December 2020 (continued)

6. Profit before taxation

	2020 £'000	2019 £'000
Depreciation of right of use asset	81	123

There were no non-audit services received in either the current or prior year. All audit fees were borne by the Parent entity in the current and prior year. Total group audit fees for 2020 were £480k (2019: £335k) and this includes audit fees relating to the Company.

7. Company employees and key management, including directors

The Company has no employees (2019: none). All services are provided by employees of the Parent for which no recharge is made.

Directors' remuneration

The Directors' emoluments for I Mansfield and T Denman were paid by the Parent for their services across both entities. It is not practicable to allocate their respective remuneration across the different group entities.

8. Income tax expense

	2020 £'000	2019 £'000
Current tax:		
United Kingdom corporation tax	1,933	2,478
Adjustments in respect of prior years	256	(209)
Deferred tax:		
Deferred tax charge/(credit) for year	61	(18)
Adjustments in respect of prior years	-	(26)
Total tax expense	**2,250**	**2,225**

The actual tax expense for the year differs from that calculated using the statutory rate of corporation tax in the UK. The differences are explained below.

	2020 £'000	2019 £'000
Profit before tax	**10,498**	**13,046**
Profit before tax multiplied by the rate of corporation tax of 19.00% (2019: 19.00%)	1,995	2,478
Adjustments in respect of prior years	255	(235)
Other	-	(18)
Total tax expense	**2,250**	**2,225**

Notes to the financial statements
for the year ended 31 December 2020 (continued)

9. Property, plant and equipment

2020	Right of use asset £'000	Total £'000
Cost		
At 1 January 2020	204	204
Additions	-	-
Disposals	(204)	(204)
At 31 December 2020	-	-
Depreciation		
At 1 January 2020	123	123
Charge	81	81
Disposals	(204)	(204)
At 31 December 2020	-	-
Net book value		
At 31 December 2020	**-**	**-**

2019	Right of use asset £'000	Total £'000
Cost		
At 1 January 2019	-	-
Right of use asset recognised upon adoption of IFRS 16	204	204
At 31 December 2019	**204**	**204**
Depreciation		
At 1 January 2019	-	-
Charge	123	123
At 31 December 2019	**123**	**123**
Net book value		
At 31 December 2019	**81**	**81**

The lease on the company's former head office expired in 2020.

Notes to the financial statements for the year ended 31 December 2020 (continued)

10. Loans and receivables

An analysis of loans and receivables based on contractual payments is as follows:

	2020 £'000	2019 £'000
Customer loans	142,785	179,793
Less: impairment allowance	(5,904)	(6,537)
Net customer loans	**136,881**	**173,256**
Unamortised loan origination costs	3,501	5,144
Accrued interest	717	942
	141,099	**179,342**
Other prepayments and accrued income	9	138
	141,108	**179,480**

Reconciliation of movement in impairment allowance

	2020 £'000	2019 £'000
Opening balance at 1 January	**6,537**	**8,935**
Settled loans	(569)	(957)
Changes in credit quality	778	(329)
Changes in model assumptions	(842)	(1,112)
Closing balance at 31 December	**5,904**	**6,537**
Balance sheet impact	(633)	(2,398)
Recoveries from loan sales	-	(1,318)
Income statement impact	(633)	(3,716)

PD Band	2020 Sum of ECL £'000	2020 Coverage %	2019 Sum of ECL £'000	2019 Coverage %
< 0.11%	-	-	-	-
0.11% - 0.17%	-	-	-	-
0.17% - 0.25%	-	-	-	-
0.25% - 0.41%	2	-	-	-
0.41% - 0.60%	18	0.1	-	-
0.60% - 0.88%	95	0.3	31	0.1
0.88% - 1.49%	189	0.6	62	0.2
1.49% - 2.96%	358	1.6	334	1.2
2.96% - 6.84%	147	3.2	665	6.9
> 6.84%	5,095	18.8	5,445	19.9
Total	**5,904**		**6,537**	

Notes to the financial statements
for the year ended 31 December 2020 (continued)

10. Loans and receivables (continued)

Below is a reconciliation of the movement in impairment allowance by stage:

	Stage 1 12-month ECL £'000	Stage 2 Lifetime ECL £'000	Stage 3 Lifetime ECL £'000	Total £'000
Loss allowance as at 1 January 2020	**176**	**3,822**	**2,539**	**6,537**
Transfers:				
Stage 1 Transfers	18	-	-	18
Stage 2 Transfers	-	(413)	-	(413)
Stage 3 Transfers	-	-	1,572	1,572
Settled loans	(18)	(245)	(305)	(568)
Changes in credit quality	(25)	(656)	281	(400)
Changes in model assumptions	(38)	(759)	(45)	(842)
Loss allowance at 31 December 2020	**113**	**1,749**	**4,042**	**5,904**

	Stage 1 12-month ECL £'000	Stage 2 Lifetime ECL £'000	Stage 3 Lifetime ECL £'000	Total £'000
Loss allowance as at 1 January 2019	**229**	**5,285**	**3,421**	**8,935**
Transfers:				
Stage 1 Transfers	(3)	-	-	(3)
Stage 2 Transfers	-	110	-	110
Stage 3 Transfers	-	-	(191)	(191)
Settled loans	(33)	(408)	(516)	(957)
Changes in credit quality	(13)	(232)	--	(245)
Changes in model assumptions	(4)	(934)	(174)	(1,112)
Loss allowance at 31 December 2019	**176**	**3,822**	**2,539**	**6,537**

Notes to the financial statements for the year ended 31 December 2020 (continued)

Below is a reconciliation of the movement in loan balance by stage:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loan balance as at 1 January 2020	**135,809**	**34,887**	**10,177**	**180,873**
Transfers:				
Stage 1 Transfers	(17,961)	-	-	(17,961)
Stage 2 Transfers	-	11,020	-	11,020
Stage 3 Transfers	-	-	6,942	6,942
Settled loans	(18,378)	(3,172)	(1,476)	(23,026)
Loan Repayments	(11,464)	(3,052)	(537)	(15,054)
Loan balance at 31 December 2020	**88,005**	**39,683**	**15,105**	**142,793**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loan balance as at 1 January 2019	**180,485**	**44,227**	**13,147**	**237,859**
Transfers:				
Stage 1 Transfers	1,184	-	-	1,184
Stage 2 Transfers	-	(2,625)	-	(2,625)
Stage 3 Transfers	-	-	(358)	(358)
Settled loans	(30,983)	(4,515)	(2,057)	(37,555)
Loan Repayments	(14,877)	(2,200)	(555)	(17,632)
Loan balance at 31 December 2019	**135,809**	**34,887**	**10,177**	**180,873**

The split of loans between stages 1, 2 and 3 is as follows:

Stage	2020 %	2019 %
1	64	77
2	27	19
3	9	4

The split of the loans within stage 2 by staging reason is as follows:

Staging reason	2020 %	2019 %
PD grade deterioration	86	74
30-60 days past due	14	26

Notes to the financial statements for the year ended 31 December 2020 (continued)

11. Trade and other payables

An analysis of trade and other payables in less than one year is as follows:

	2020 £'000	2019 £'000
Accruals and deferred income	66	734
Sundry creditors	315	643
	381	**1,377**

Sundry creditors in 2019 included £341k in respect of the lease liability following the adoption of IFRS 16 from 1 January 2019.

12. Regulatory provisions

	2020 £'000	2019 £'000
At 1 January	**2,695**	**3,285**
Utilisation	(61)	(590)
Release during the year	(1,124)	-
At 31 December	**1,510**	**2,695**

Regulatory provisions have been made in respect of various customer claims, including claims in relation to previous sales of payment protection insurance. Information on the approach to estimating the potential liability is set out in note 2.

13. Financial liabilities

An analysis of the Company's borrowings is as follows:

	2020 £'000	2019 £'000
Current:		
Bank overdrafts	343	348
Non-current :		
Intercompany loans (see note 19)	23,890	68,493

All loans are with the Parent, of which the Company is a subsidiary. Amounts due to the Parent are unsecured and obligations have no fixed repayment date.

Notes to the financial statements for the year ended 31 December 2020 (continued)

14. Deferred tax

The components and movements on the deferred tax account during the year were as follows:

	1 January 2020 £'000	Income Statement £'000	31 December 2020 £'000
Assets			
Depreciation in excess of capital allowances	196	(80)	116
Liabilities			
IFRS 9 transitional adjustment	(150)	19	(131)
Total	**46**	**(61)**	**(15)**

	1 January 2019 £'000	Income Statement £'000	31 December 2019 £'000
Assets			
Depreciation in excess of capital allowances	170	26	196
Liabilities			
IFRS 9 transitional adjustment	(168)	18	(150)
Total	**2**	**44**	**46**

The rate of corporation tax for the 2020 financial year was 19% and the rate for 2021 is also expected to be 19%.

15. Called up share capital

	2020 £'000	2019 £'000
Authorised, allotted and fully paid		
100,000 ordinary shares of £1	100	100

16. Financial risk management

The main financial risks that the Company is exposed to, and its management policy with respect to those risks, are as follows:

- *Interest rate risk:* the possibility that changes in interest rates will result in higher financing costs and/or reduced income from the Company's interest-bearing financial assets and liabilities.
  Interest rate risk is an inherent trading risk which is monitored by the Board.
- *Credit risk:* the risk that counterparties to the Company's financial assets may default.
  A range of policies and practices is employed to mitigate credit risk – the most common is the taking of security for funds advanced.

Notes to the financial statements
for the year ended 31 December 2020 (continued)

16. Financial risk management (continued)

- *Liquidity risk:* the risk that the Company's cash and committed facilities may be insufficient to meet debts as they fall due. The Company maintains a mixture of committed facilities, including primarily financial support from the Parent, Principality Building Society, that are designed to ensure the Company has sufficient available funds for operations.

The Company's Directors are required to follow the requirements of the Principality Building Society risk management policies, which include specific guidelines on interest rate and credit risks, and advice on the use of financial instruments to manage them.

The risk management policy is in line with the Parent entity – Principality Building Society. Refer to the risk management note in the Society's annual accounts which will be published on the Society's website (http://www.principality.co.uk/).

Maturity of financial instruments

Financial liabilities	**2020 £'000**	**2019 £'000**
In one year or less	343	348
In more than one year but less than two years	-	-
In more than two years but less than five years	23,890	68,493
	24,233	**68,841**

The Company's exposure to interest rate changes at 31 December 2020 was as follows:

	1 year £'000	**1-5 years £'000**	**Total £'000**
Financial assets			
Loans and receivables	141,099	-	141,099
Financial liabilities			
Borrowings	23,890	-	23,890

The Company's exposure to interest rate changes at 31 December 2019 was as follows:

	1 year £'000	**1-5 years £'000**	**Total £'000**
Financial assets			
Loans and receivables	179,342	-	**179,342**
Financial liabilities			
Borrowings	68,493	-	**68,493**

All financial assets and liabilities are on variable interest rates.

Notes to the financial statements
for the year ended 31 December 2020 (continued)

17. Contingencies and commitments

Capital and other commitments

There were no capital commitments at 31 December 2020 (2019: none).

18. Events after the balance sheet date

There are no post-balance sheet events.

19. Related party transactions

The definition of related parties includes the Parent, as well as the Company's key management which includes its Directors. There were no such transactions with key management. Particulars of transactions, and the balances outstanding at the year-end (note 13), are disclosed in the tables below:

	2020 Parent company £'000	2019 Parent company £'000
Funding from parent company		
Balance at start of year	68,493	135,181
Interest payable on funding	3,534	5,650
Decrease in funding levels	(48,137)	(72,338)
Balance at end of year	**23,890**	**68,493**

In addition to interest charges, in 2019 the Company paid £312k of management recharges to the Parent. No recharge has been made in 2020.

Notes to the financial statements for the year ended 31 December 2020 (continued)

20. Financial instruments disclosures

a) Categories of financial instruments

Financial assets and liabilities are measured on an ongoing basis either at fair value or at amortised cost.

The accounting policies note describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following tables analyse the financial assets and liabilities in the statement of financial position by the class of financial instrument to which they are assigned, and by the measurement basis:

Financial assets	2020 £'000	2019 £'000
Loans and receivables	143,511	179,342
The following assets are held at fair value through profit and loss:		
Deferred sale consideration	8	15

b) Carrying values and fair values

The table below compares carrying values and fair values of the Company's financial instruments by category.

The majority of the financial assets and financial liabilities are held at variable rate. The Company loans have been calculated by discounting future cash flows using the effective interest rate associated with each loan. A deduction for incurred losses rather than expected losses has been included.

Carrying Value	2020 £'000	2019 £'000
Loans and advances to customers	143,511	179,342

Fair Value	2020 £'000	2019 £'000
Loans and advances to customers	143,502	180,735
Deferred sale consideration	8	15

c) Credit risk

For financial assets recognised on the statement of financial position, the exposure to credit risk equals their carrying amount. For loan commitments and guarantees, the exposure to credit risk is the full amount committed.

	2020 £'000	2019 £'000
Financial assets		
Loans and advances to customers	142,440	179,342
Deferred sale consideration	8	15
	142,448	**179,357**

Notes to the financial statements
for the year ended 31 December 2020 (continued)

20. Financial instruments disclosures (continued)

The table below provides further information on the Company's loans secured on residential property by payment due status:

	2020		2019	
	£'000	%	£'000	%
Current and up to date	125,758	88	162,571	89.8
Past due up to six months	10,069	7	13,699	7.6
Past due over six months	7,683	5	4,603	2.6
	143,511	**100.0**	**180,873**	**100.0**

An impairment provision of £5,904k (2019: £6,537k) has been provided for the anticipated losses on the above assets. This includes provision for 130 loans subject to COVID-19 payment holidays at 31 December 2020, all of which are included in stage 2.

The average loan to original value (LTV) in respect of the Company's loans secured on residential property is 62% (2019: 64%). Further LTV information based on original security valuation is shown below:

	2020	2019
	%	%
0 - 50%	24	19
50% - 75%	53	54
75% - 85%	12	15
More than 85%	11	12
	100	**100**

The average balance to current value (BTV) in respect of the Company's loans secured on residential property is 53% (2019: 54%). Further LTV information based on current security valuation is shown below:

	2020	2019
	%	%
0 - 50%	44	48
50% - 75%	46	44
75% - 85%	7	5
85% - 100%	3	3
	100	**100**

Non-arrears customers are indexed using Nationwide HPI and all non performing accounts are valued using the Hometrack desktop valuation model.

d) Market risk

The sole source of market risk is interest rate risk, as outlined below.

Notes to the financial statements for the year ended 31 December 2020 (continued)

20. Financial instruments disclosures (continued)

e) Interest rate risk

The Company's exposure to interest rate risk is managed through close monitoring of interest rates on its loan products.

The Company is funded by a variable interest rate loan from the Parent, details of which are included in notes 13 and 16. The exposure to variable rate funding is managed through the close monitoring of variable interest rates on the Company's loan products and the rate on the loan to the Company from its Parent.

Funding is carried out at a Group level considering both maturity and interest type. The Company sees the interest rate risk to be immaterial.

The Company holds collateral against loans and advances to residential customers in the form of mortgage interests over property. Repossessed properties are made available for sale at the time of the repossession in accordance with statutory guidelines with proceeds used to reduce or repay the outstanding loan. The Company has a statutory duty to obtain the best reasonable price and to sell as soon as it reasonably can.

21. Provisions and contingent liabilities

Regulatory provision

Provisions have been made in respect of historic customers claims (note 12). At 31 December 2020, provisions of £1,510k were held (2019: £2,695k). There remains a significant degree of uncertainty with regard to the ultimate cost of settling customer claims. Further information is provided in note 2.

22. Ultimate holding party

Principality Building Society is ultimate controlling party and the Parent of the smallest and largest Company of which Nemo is a member and for which Group financial statements are drawn up. Copies of the Principality Building Society Group's annual report will be published on the Society's website (http://www.principality.co.uk).