Nemo Personal Finance Limited

Annual report for the year ended 31 December 2014

Registered Number 05188059

Nemo Personal Finance Limited

Annual report
for the year ended 31 December 2014

Contents

Nemo Personal Finance Limited

Officers and professional advisers

Directors	G H Yorston (Chairman) G MacLean A W Jarman (Appointed 30 September 2014)
Secretary	M Borrill
Registered Office	Principality Buildings Queen Street Cardiff CF10 1UA
Bankers	Barclays Bank plc 3rd Floor Windsor Court Windsor Place Cardiff CF10 3BX
Solicitors	Eversheds LLP 1 Callaghan Square Cardiff CF10 5BT Robertsons 6 Park Place Cardiff CF10 3RS
Auditor	Deloitte LLP 5 Callagan Square Cardiff CF10 5BT

Strategic and Directors' Report

Nemo Personal Finance Limited

Strategic report for the year ended 31 December 2014

Strategic Report

The Group consisting of Nemo Personal Finance Limited and Loan Link Limited continues to perform well financially; fulfilling an important role within the Principality Building Society Group and playing an important role in helping consumers manage their finances more effectively. The business has a strong product offering and operates within a clearly defined risk appetite distributing its products predominantly through broker networks and also directly to consumers. The secured personal loans market is seeing increased competition and will also face further changes to the regulatory landscape over the next 12 – 18 months.

The current Group strategy will continue to be to maintain and where appropriate grow its secured loan book and maintain its market share. There are a number of changes likely to emerge in 2015, including increased competitor activity and regulatory change.

The entrance of new competitors in the Secured Loan sector has placed downward pressure on pricing and the Group is continually reviewing its product offering to ensure strong market presence. From 1 April 2014, the Financial Conduct Authority (FCA) has taken on the regulation of the second charge market from the Office of Fair Trading. The business is currently undertaking a comprehensive review to ensure an effective transition towards implementing the European Mortgage Directive in March 2016. The Group will be applying for full FCA permissions from 1 April 2015. The Group have prepared a plan to meet full permission requirements, and is on track to meet key deadlines as required by the FCA.

Measuring performance

Progress against the strategy is tracked using a range of performance measures. These measures indicate whether and how quickly the business is delivering its strategic objectives and when corrective action may be necessary.

Key performance indicators

Year ended 31 December	2014	2013
Profit before tax (£000's)	13,919	16,433
Profit after tax as a % of mean assets	2.53%	2.85%
Total assets (£000's)	530,890	570,836
Change in total assets	(7.0%)	(1.81%)
Headcount (full-time equivalents)	143	119

Mean assets are calculated by averaging opening and closing assets for the year. Headcount is the total number of full-time equivalent staff employed at the end of each year.

Alignment of remuneration with performance

The alignment of remuneration with performance is in line with parent policy and further information on this can be found in the parent company financial statements on page 57 (www.principality.co.uk).

Business review
The Group saw a decline in its performance in 2014 with profit before tax decreasing to £13.9m (2013: £16.4m). Lower levels of profitability in 2014 were driven by a decrease in the loan book as legacy assets with higher yielding rates settled and were replaced with new business having lower yielding rates.

Loans in the portfolio that meet current lending criteria demonstrate strong credit quality with low levels of impairments, and legacy (pre-2009) products represent a declining proportion of total loan receivables. Impairment provisions held in the statement of financial position totalled £25.5m (2013: £27.1m.)

Interest margin, the effective interest earned on loans to customers after deducting funding costs, decreased to 6.0% (2013: 6.7%) as the portfolio mix now includes a larger proportion of lower yielding assets since the Group's credit risk appetite is kept low. New lending for the year reduced to £91m (2013: £135m) due to an increased level of competitor activity and a reduction in the level of credit appetite. The Group also saw an increase in FTE to meet the new requirements set by the FCA. Alan Jarman, Chief Executive Officer was appointed 30 September 2014 to enhance the strategic leadership and direction of Nemo. Further strengthening of senior management has taken place with the recent appointment of the Finance Director and Operations Director. These changes focus on positioning Nemo strongly in the market place and ensuring there is adequate management capability to manage the impending regulatory change.

The Group offers a range of account management and forbearance options for borrowers. In the event of short-term difficulty the Group operates temporary reductions in payments and 'rehabilitation' tools for borrowers in arrears or pre-delinquency. A detailed description of the policy is on page 38. During the year the Group concluded a detailed and comprehensive review of its compliance with consumer credit legislation which commenced in 2013. The total net remediation costs for the issues identified were £8.5m, of which £0.5m was charged in the current year (2013: £8.0m). The remediation of accounts carrying an impairment provision created an additional charge of £3.0m, which was offset by an equal and opposite release of impairment provision.

Principal risks and uncertainties
The Group's operations expose it to a variety of financial risks that include the effects of credit risk, interest rate risk, operational risk and liquidity risk.

The key risks to the Group are linked to the overall performance of the economy and the resultant effect on interest rates, unemployment and house price indices. Overall risk is managed in line with parent policy and further information on this can be found in the parent company financial statements on pages 26 to 34.

Credit risk
Credit risk is the risk that a customer or counterparty will fail to meet their financial obligations to the Group as they become due. Credit risk policies are 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 has a number of criteria in relation to income, debt to income ratio, loan to value ratio and credit score to minimise the credit risk.

The controlled management of credit risk is critical to the success of the Group's lending. The quality of individual lending decisions, the subsequent management and control, together with the application of a credit policy that reflects the risk appetite of the business, will have a direct impact on the achievement of the financial objectives of the Group.

The Group's forecasts and plans have taken account of the risk of decreases in house prices, plus deterioration in the economic environment, and have been prepared and stressed accordingly.

Interest rate risk
Interest rate risk is the risk of loss resulting from adverse movements in market interest rates. The Group's exposure to interest rate risk is managed through monitoring of interest rates on its products, which are all at variable interest rates. The various interest rate features and maturity profiles for these products, and the use of wholesale funds to support their delivery, create interest rate risk exposures due to the imperfect matching of interest rates between loans and wholesale funding and the timing differences on re-pricing.

Strategic report for the year ended 31 December 2014 (continued)

Principal risks and uncertainties (continued)

Conduct risk
Conduct risk is the risk of the Group treating its customers unfairly and delivering unfair customer outcomes through interactions with them. The sustainability of the Group's business model and achievement of its longer-term strategy are dependent upon the consistent and fair treatment of customers. Furthermore, the current regulatory regime is resulting in increased scrutiny on the conduct of firms and their focus on delivering fair customer outcomes, with significant consequences for those firms that do not manage conduct risk effectively. Consequently, the Group has invested heavily during 2014 in its framework and approach to managing conduct risks.

Liquidity risk and capital management
Liquidity risk is the risk that the Group's cash and committed facilities may not be sufficient to meet its financial obligations.

The Parent monitors risk exposure and the reporting of liquidity risk takes the form of cash flow measurement and projections for the next day, week, month and year, as these are key periods for liquidity management. Sources of liquidity are regularly reviewed at Parent Board level.

The Group maintains appropriate facilities, and receives financial support from the parent entity, Principality Building Society, which is designed to ensure the Group has sufficient funds available for operations. The Group has no direct exposure to the Eurozone and the Group's parent entity has only limited indirect exposure. Further detail is provided in the financial statements of Principality Building Society.

Operational Risk
With an increasingly competitive operating environment, it is recognised that Nemo is exposed to increased levels of operational risk, for example in terms of systems capability and staff competencies. The financial services sector also faces growing levels of financial crime, which require increasingly sophisticated anti-fraud controls.

The role of the operational risk management function is to ensure appropriate strategies are in place to manage and mitigate the risks that could impact the Group's ability to meet its business objectives whilst protecting its reputation. Nemo manages its exposure to operational risk, considering the impact by reference to a number of discrete categories which include process management, systems failure, reputational issues, business continuity planning and fraud risk.

The Group's operational risk management framework sets out its strategy for identifying, assessing and managing operational risk, with senior management having responsibility for understanding the nature and extent of the impact on each business area and for embedding appropriate controls to mitigate these risks. The framework is updated periodically to take account of changes in business profile, new product development, and the external operating environment.

Oversight is provided by Principality Building Society's Group Operational Risk Committee, and the assessment of exposure to operational risks is based on both quantitative and qualitative considerations. 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.

By order of the Board
Director

G H Yorston
10 February 2015

Nemo Personal Finance Limited

Directors' report for the year ended 31 December 2014

The directors present their report and the financial statements of the Group and company for the year ended 31 December 2014.

Principal activities
The Group's principal activities are that of secured personal lending, loan servicing, and loan broking. The principal activities of the company are secured personal lending and loan servicing.

Dividends and transfer to reserves
The results for the period are set out in the consolidated income statement and the consolidated statement of other comprehensive income. The directors do not recommend the payment of a dividend (2013: £nil).

Going concern
The parent entity, Principality Building Society, prepares forecasts, projections and scenario testing which includes Nemo Personal Finance Limited which are carried out in accordance with the Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment (ILAA), a process required by the regulators to demonstrate appropriate levels of capital under stressed conditions. This takes account of reasonably possible changes in trading performance and shows that the parent entity will be able to operate within the sources of funding currently available to it.

The parent entity monitors its liquidity levels so as 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 the current economic conditions.

As presented in the statement of financial position, the company has financial resources, including an inter-company loan from its parent, for 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 reasonably 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.

Directors
The current directors of the company are as shown on page 1.

P E Jones and W G Thomas resigned as directors on 14 April 2014 and 31 October 2014 respectively.

Nemo Personal Finance Limited

Directors' report for the year ended 31 December 2014 (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 group and the company and of the profit or loss of the group 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 has resolved that Deloitte LLP should be reappointed.

By order of the Board

Director

G H Yorston
10 February 2015

Independent auditor's report to the members of Nemo Personal Finance Limited

We have audited the financial statements of Nemo Personal Finance Limited for the year ended 31 December 2014 which comprise the Consolidated Income Statemtent, the Consolidated Statement of Other Comprehensive Income, the Consolidated and Company Statement of Changes in Shareholders' Equity, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Cash Flows and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective responsibilities of directors and auditor
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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion 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.

Independent auditor's report to the members of Nemo Personal Finance Limited (continued)

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Matthew Perkins

Matthew Perkins (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cardiff, United Kingdom
10 February 2015

Nemo Personal Finance Limited

Consolidated income statement for the year ended 31 December 2014

Continuing operations:	Note	2014 £'000	2013 £'000
Interest receivable and similar income	4	44,995	50,321
Interest payable and similar charges	5	(12,965)	(13,561)
		32,030	36,760
Fees and commissions receivable	7	749	4,402
Fees and commissions payable	6	(450)	(422)
Impairment charge on loans	14	(2,231)	(5,270)
Regulatory provisions	16	(3,978)	(8,000)
Net income		26,120	27,470
Operating expenses		(12,201)	(11,037)
Profit before taxation	8	**13,919**	**16,433**
Income tax expense	10	(2,711)	(3,593)
Profit for the financial year		**11,208**	**12,840**

Consolidated statement of other comprehensive income for the year ended 31 December 2014	2014 £'000	2013 £'000
Profit for the financial year	**11,208**	**12,840**
Total recognised income for the year	**11,208**	**12,840**

There is no difference between the profit before taxation and the profit for the year stated above, and their historical cost equivalents.

The accounting policies and notes on pages 16 to 39 form part of these accounts.

Nemo Personal Finance Limited

Consolidated statement of changes in shareholders' equity for the year ended 31 December 2014

	2014 £'000	2013 £'000
Profit for the financial year	11,208	12,840
Net increase to shareholders' equity	**11,208**	**12,840**
Opening shareholders' equity	39,242	26,402
Closing shareholders' equity	**50,450**	**39,242**

Company statement of changes in shareholders' equity for the year ended 31 December 2014

	2014 £'000	2013 £'000
Profit for the financial year	11,103	12,578
Net increase to shareholders' equity	**11,103**	**12,578**
Opening shareholders' equity	37,907	25,329
Closing shareholders' equity	**49,010**	**37,907**

Nemo Personal Finance Limited

Consolidated statement of financial position at 31 December 2014

	Note	2014 £'000	2013 £'000
Assets			
Non-current assets			
Intangible fixed assets	11	-	656
Property, plant and equipment	13	571	687
Loans and receivables	14	480,499	518,119
Total non-current assets		**481,070**	**519,462**
Current assets			
Loans and receivables	14	48,330	48,184
Deferred sale consideration		1,220	2,888
Deferred tax	18	270	270
Cash and bank balances		-	32
Total current assets		**49,820**	**51,374**
Total assets		**530,890**	**570,836**
Liabilities			
Current liabilities			
Trade and other payables	15	846	1,176
Regulatory provisions	16	464	9,115
Short-term loans and overdrafts	17	2,126	2,236
Current tax		1,673	1,064
Deferred tax	18	18	36
Total current liabilities		**5,127**	**13,627**
Net current assets		**44,694**	**37,747**
Non-current liabilities			
Long-term loans	17	475,313	517,967
Total non-current liabilities		**475,313**	**517,967**
Total liabilities		**480,440**	**531,594**
Net assets		**50,450**	**39,242**
Equity			
Called up share capital	19	100	100
Retained profit		50,350	39,142
Total equity		**50,450**	**39,242**

The financial statements of Nemo Personal Finance Limited, registered number 05188059, on pages 10 to 39, were approved by the board of directors and authorised for issue on 10 February 2015

Director

G H Yorston

Director

A W Jarman

Nemo Personal Finance Limited

Company statement of financial position at 31 December 2014

	Note	2014 £'000	2013 £'000
Assets			
Non-current assets			
Investments	12	-	500
Property, plant and equipment	13	571	687
Loans and receivables	14	480,499	518,119
Total non-current assets		**481,070**	**519,306**
Current assets			
Loans and receivables	14	48,330	48,184
Deferred sale consideration		1,220	2,888
Deferred tax	18	270	270
Cash and bank balances		-	32
Total current assets		**49,820**	**51,374**
Total assets		**530,890**	**570,680**
Liabilities			
Current liabilities			
Trade and other payables	15	846	1,176
Regulatory provisions	16	272	8,880
Short-term loans and overdrafts	17	2,119	2,233
Current tax		1,511	980
Deferred tax	18	18	36
Total current liabilities		**4,766**	**13,305**
Net current assets		**45,054**	**38,069**
Non-current liabilities			
Long-term loans	17	477,114	519,468
Total non-current liabilities		**477,114**	**519,468**
Total liabilities		**481,880**	**532,773**
Net assets		**49,010**	**37,907**
Equity			
Called up share capital	19	100	100
Retained profit		48,910	37,807
Total equity		**49,010**	**37,907**

The financial statements of Nemo Personal Finance Limited, registered number 05188059, on pages 10 to 39, were approved by the board of directors and authorised for issue on 10 February 2015.

Director

G H Yorston

Director

A W Jarman

Nemo Personal Finance Limited

Consolidated statement of cash flows for the year ended 31 December 2014

	2014 £'000	2013 £'000
Net cash inflow from operating activities		
Cash from operating activities (see below)	43,039	25,477
Net cash from operating activities	**43,039**	**25,477**
Cash flows used in investment activities		
Purchase of property, plant and equipment	(307)	(418)
Net cash used in investing activities	**(307)**	**(418)**
Cash flows used in financing activities		
Repayment of loan advanced by parent company	(42,654)	(24,818)
Net cash used in financing activities	**(42,654)**	**(24,818)**
Net increase in cash and cash equivalents	78	241
Cash and cash equivalents at start of year	(2,204)	(2,445)
Cash and cash equivalents at end of year	**(2,126)**	**(2,204)**
Cash and cash equivalents comprise:		
Bank overdraft	**(2,126)**	**(2,236)**
Cash and bank balances	**-**	**32**

Net cash inflow from operating activities		
Profit for the year before tax	13,919	16,433
Adjusted for:		
Depreciation	423	700
Increase in provision for impairment	1,510	5,270
(Decrease)/increase in regulatory provision	(8,651)	2,843
Net decrease in loans	36,010	5,760
Decrease/(increase) in deferred consideration and other assets	1,623	(761)
Increase in trade and other payables	322	85
Taxation	(2,117)	(4,853)
Net cash inflow from operating activities	**43,039**	**25,477**

Nemo Personal Finance Limited

Company statement of cash flows for the year ended 31 December 2014

	2014 £'000	2013 £'000
Net cash inflow from operating activities		
Cash from operating activities (see below)	42,741	25,392
Net cash from operating activities	**42,741**	**25,392**
Cash flows used in investment activities		
Purchase of property, plant and equipment	(307)	(418)
Net cash used in investing activities	**(307)**	**(418)**
Cash flows used in financing activities		
Repayment of loan advanced by parent company	(42,164)	(25,191)
Repayment of loan advanced by subsidiary	(188)	461
Net cash used in financing activities	**(42,352)**	**(24,730)**
Net increase in cash and cash equivalents	82	244
Cash and cash equivalents at start of year	(2,201)	(2,445)
Cash and cash equivalents at end of year	**(2,119)**	**(2,201)**
Cash and cash equivalents comprise:		
Bank overdraft	**(2,119)**	**(2,233)**
Cash and bank balances	**-**	**32**

Net cash inflow from operating activities		
Profit for the year before tax	13,734	16,085
Adjusted for:		
Depreciation	423	700
Increase in provision for impairment	1,510	5,270
(Decrease)/increase in regulatory provision	(8,608)	3,107
Net decrease in loans	36,010	5,760
(Decrease)/increase in deferred consideration and other assets	1,623	(767)
Increase in trade and other payables	166	4
Taxation	(2,117)	(4,767)
Net cash inflow from operating activities	**42,741**	**25,392**

Nemo Personal Finance Limited

Notes to the financial statements for the year ended 31 December 2014

1 Accounting policies

Basis of preparation

The Group's financial statements for the year ended 31 December 2014 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 have been prepared on a going concern basis. This is discussed in the Directors' Report on page 6, under the heading 'Going concern'. At the date of authorisation of these financial statements the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

Pronouncement	Nature of change	Effective date
IFRS 3 Business Combinations	The amendments clarify the classification and measurement of contingent consideration in a business combination. Entities will be required to treat contingent consideration according to IAS 32 Financial Instruments: Presentation when the consideration is a financial instrument. Further, the consideration must always be measured at fair value when it is classified as an asset or a liability. The amendment is not expected to have a significant impact on the Group's accounts.	Accounting periods beginning on or after 1 July 2014
IFRS 8 Operating Segments	The amendments require the explicit disclosure of judgements made by Management in applying criteria for the aggregation of operating segments. As the Group's operating segments are quite clear-cut, the extent of the impact to the Group is expected to be limited to the possible addition of wording to the Business segments note describing how the operating segments are determined.	Accounting periods beginning on or after 1 July 2014
IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets	The amendments clarify that upon revaluing relevant assets, the amount by which accumulated depreciation or amortisation is adjusted need not be proportionate to the change in the gross carrying amount of the asset. These amendments are not expected to have any significant impact on the Group's accounts.	Accounting periods beginning on or after 1 July 2014
IAS 24 Related Party Disclosures	The amendment has extended the definition of related parties to include a management entity that provides key management personnel services to the reporting entity. This amendment is not expected to have any impact on the Group's accounts.	Accounting periods beginning on or after 1 July 2014

Notes to the financial statements for the year ended 31 December 2014 (continued)

1 Accounting policies (continued)

IFRS 2 Share-based Payment	The amendments clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition.' No impact on the Group is expected as it does not typically offer share-based compensation.	Accounting periods beginning on or after 1 July 2014
IFRS 13 Fair Value Measurement	The amendments clarify that the standard does not intend to prevent entities from measuring short-term receivables and payables with no stated interest rate at their invoiced amounts without discounting if the effect of the discounting is immaterial. They also clarify that the exception whereby entities are allowed to measure the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis if certain conditions are met applies to contracts in the scope of IAS 39 and IFRS 9 without regard to whether they meet the definition of a financial asset or liability under IAS 32. These amendments are not expected to have any significant impact on the Group's accounts.	Accounting periods beginning on or after 1 July 2014
IFRS 9 Financial *Instruments*	In July 2014, the IASB published the final version of IFRS9 *Financial Instruments*. This standard adopts a phased approach to replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard affects a number of areas of the accounts with the final version of the standard requiring the use of the expected loss impairment model..	Accounting periods beginning on or after 1 January 2018

The directors anticipate that the adoption of these standards and interpretations in future periods, with the exception of IFRS 9, will not have a material impact on the financial statements of the Group. The impact of IFRS 9 is being considered but is expected to have a material effect on the Group.

The accounting policies set out below have been applied consistently to the periods presented in these consolidated financial statements.

1 Accounting policies (continued)

Basis of consolidation
The consolidated Group financial statements incorporate the assets and liabilities of the company and its subsidiary undertaking made up to 31 December 2014. Separate financial statements are presented for the company.

(a) Revenue
Revenue comprises interest receivable on customer loans outstanding, commission receivable and other income. All revenue is derived in the UK.

Interest
Interest income or expense is recognised on all interest-bearing financial assets classified as loans and advances, 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.

Commission receivable
The company can receive trail commission based on the performance of previous sales of Payment Protection Insurance at the discretion of the life assurance company. The commission is recognised when payment is received.

Deferred sale consideration
The company recognises profit on the sale of loan assets in the month of sale in line with IAS 18 Revenue. The deferred consideration is recognised in line with IAS 39 and is calculated as proceeds less carrying value and any associated balance held in respect of fees and charges held on the statement of financial position as part of the effective interest rate calculation. The deferred consideration is recognised as an asset held at fair value with changes in fair value being put to the income statement.

Other income and fees
Unless included in the effective interest calculation, other income, fees and commissions are recognised as they arise on an accruals basis.

Fees received under loan servicing and other business process outsourcing is reflected in the consolidated income statement in the period that the servicing is carried out. Other than at the point of loan de-recognition, all service contracts provide for charging clients on a monthly basis by reference to either the portfolio size or according to a fixed fee structure.

1 Accounting policies (continued)

(b) Financial assets and liabilities

Financial assets

The company's financial assets are customer loans and receivables, and cash. They are non-derivative assets with fixed or determinable payments that are not quoted in an active market and are not classified as available-for-sale. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method.

Financial liabilities

Financial liabilities continue to be measured at amortised cost.

(c) Impairment of financial assets

The company assesses at each statement of financial position date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. The factors that the company takes into account include significant financial difficulties of the debtor, a breach of contract or default in payments, the granting by the company of a concession to the debtor because of a deterioration in its financial condition, or the probability that the debtor will enter into bankruptcy or other financial reorganisation.

The company also considers observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, arising from adverse changes in the payment status of borrowers in the portfolio and national or local economic conditions that correlate with defaults on assets in the portfolio.

The company first assesses whether objective evidence of impairment exists for individually significant financial assets and then collectively assesses remaining financial assets that are not individually significant. An additional provision has been allocated to performing loans which have potential impairment indicators such as previous arrears experience and insolvency issues. In addition portfolios of financial assets with similar credit risk characteristics are also collectively assessed for recoverability.

Impairment allowances are measured as the difference between the asset's carrying amount and the estimated recoverable amount, calculated by reference to the expected cash flows discounted at the asset's original effective interest rate.

(d) Cash and cash equivalents

For the purposes of the cash flow statement, 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.

1 Accounting policies (continued)

(e) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the assets. Land and buildings comprise the professional fees for acquiring the qualifying asset.

Depreciation is provided on the depreciable amount of items of property, plant and equipment on a straight-line basis over their estimated useful lives. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its economic life.

The company uses the following annual rates in calculating depreciation:

Computers and similar equipment (IT software)	20 – 33%
Fixtures and fittings, other equipment and vehicles	10 – 20%
Land and buildings	10%

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances.

(g) Impairment of property, plant and equipment and intangible assets

At each statement of financial position date, or more frequently where events or changes in circumstances dictate, property, plant and equipment and intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. Goodwill is subject to an impairment review as at the statement of financial position date each year. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset's or the cash-generating unit's selling price and its value in use.

The carrying values of tangible and intangible assets are written down by the amount of any impairment and this loss is recognised in the consolidated income statement in the period in which it occurs. A previously recognised impairment loss may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the related asset's recoverable amount. The carrying amount of the asset will only be increased up to the amount that it would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed. For the purpose of conducting impairment reviews, cash-generating units are the lowest level at which management monitors the return on investment of assets.

1 Accounting policies (continued)

(h) Leases
As lessee

Operating lease rentals payable are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term unless another systematic basis is more appropriate.

(i) Employee benefits
Defined contribution schemes

Contributions to defined contribution schemes are recognised as an expense in the consolidated income statement in the accounting period to which they relate. Any unpaid contributions are recognised in the statement of financial position as a liability.

Short-term employee benefits
Short-term employee benefits, such as salaries, paid absences and other benefits, are accounted for on an accruals basis over the period in which employees have provided services in the year. Bonuses are recognised to the extent that the company has a present obligation to its employees that can be measured reliably.

All expenses related to employee benefits are recognised in the consolidated income statement in staff costs, which is included within operating expenses.

(j) 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.

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 consolidated 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.

(k) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included as an intangible asset. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment test compares the carrying value of goodwill to the underlying associated asset value in use. If the carrying value exceeds the value in use, goodwill is considered impaired and recognised in the income statement immediately.

Goodwill written off to reserves under UK GAAP prior to the introduction of FRS 10 'Goodwill and Intangible Assets' in 1998 has not been reinstated and will not be included in determining any subsequent profit or loss on disposal.

(l) Segmental reporting
A business segment is defined as a Group of assets and operations providing products and services that are subject to different risks and returns from those business segments. The Group considers that business segments are its primary reporting format for segmental analysis. Business segments are based on the Group's management and internal reporting structures.

2 Judgements in applying accounting policies and critical accounting estimates

Impairment provision on loans and advances
In accordance with the accounting policy on the impairment of financial assets carried at amortised cost where objective evidence exists that a loss has been incurred, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Key assumptions included in the measurement of the incurred loss include data regarding the probability of any account going into default, the probability of defaulted accounts progressing to possession and the eventual loss incurred in the event of forced sale or write-off. The House Price Index (HPI) and the discount applied on forced sale are key assumptions on the secured loan book.

Additional impairment provisions are made against a cohort of accounts which have a risk of becoming non-performing in the future.

To the extent that the HPI movements were to differ from current observations by 1%, the impact on provisions would be £600k. The impact of a 1% change in the forced sale discounts currently being experienced would impact provisions by £600k.

Other provisions for liabilities and charges
At 31 December 2014, the Group holds a provision of £0.4m (2013: £1.1m), which it expects to be sufficient to meet obligations in relation to previous sales of PPI. The level of provision is calculated based upon estimates of complaint volumes, the rate at which these claims are upheld and the level of redress paid on each complaint.

Provisions are only made where the Group has responsibility for the original sale of the product. No provision has been made for sales by third parties as external legal advice has concluded that it is unlikely that the Group would be liable for redress in respect of such sales.

Effective interest rates (EIR)
The Group uses the EIR method to recognise income for certain financial instruments held at amortised cost. To calculate the appropriate EIR, the Group makes assumptions of the expected lives of financial instruments and the anticipated level of early redemption charges. The most critical assumption is the anticipated level of early settlements.

Between May 2007 and early 2008 the Group offered a financial promotion to rebate 25% of the estimated interest that would be charged during the first ten years. This has been accounted in line with IAS39 and takes into account the anticipated level of early settlements. To date the Group has provided for £12.5m against a projected liability of £18.9m.

The impact of a 10% change in the expected lives of the affected loans would result in an increase/(decrease) in the value of the loans in the statement of financial position by £0.28m/(£0.28m) respectively. The impact of a 10% change in the anticipated level of early redemption would result in an increase/(decrease) in the value of the loans in the statement of financial position by £0.25m/(£0.25m) respectively.

3 Operating segments

The Group operates a single material operating segment, secured personal lending. The Group 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

Interest expense consists of interest and other charges payable on funding from Group companies.

6 Fees and commissions payable

Fee and commission expense relates to introductory commissions paid that do not form part of the effective interest rate on loans.

7 Fees and commission income

Fees and commission income includes trail commission receivable on the sale of previous Payment Protection Insurance, income on the sale and servicing of sold loans and other income.

The loan assets sold to third parties in the period has been de-recognised in accordance with the accounting standards whereby the significant risks and rewards have been transferred to the purchaser.

8 Group profit before taxation

The following have been charged in arriving at profit before taxation:

	2014 £'000	2013 £'000
Staff costs (note 9)	5,394	5,442
Depreciation of owned property, plant and equipment	423	700
Operating lease and sublease rentals payable	506	514

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.

9 Group and company employees and key management, including directors

Staff costs comprise the following:

	2014 £'000	2013 £'000
Wages and salaries	4,801	4,930
Social security costs	434	413
Pension costs	159	99
	5,394	**5,442**

The number of persons employed by the Group and company at the end of 2014 was 143 (2013: 119).

Directors' remuneration
The aggregate emoluments of the directors of the company, disclosed in accordance with Schedule 6 of the Companies Act 2006, were as follows:

	£'000	£'000
Aggregate emoluments	**398**	**606**
Pension contribution to defined contribution pension scheme	**14**	**79**
Total	**412**	**685**
Highest paid director		
Aggregate emoluments	**217**	**263**
Pension contribution to defined contribution pension scheme	**6**	**31**
Total	**223**	**294**

The directors' emoluments for A W Jarman, G H Yorston, W G Thomas and G MacLean were paid by Principality Building Society which makes no recharge to Nemo Personal Finance Limited. It is not practicable to allocate their respective remuneration across the different Group entities.

10 Income tax expense

Group	2014 £'000	2013 £'000
Current tax		
United Kingdom corporation tax	3,160	3,988
Adjustments in respect of prior years	(431)	(351)
Deferred tax		
Deferred tax credit for year	(18)	(44)
Total tax expense	**2,711**	**3,593**

Company	2014 £'000	2013 £'000
Current tax		
United Kingdom corporation tax	3,081	3,907
Adjustments in respect of prior years	(432)	(357)
Deferred tax		
Deferred tax credit for year	(18)	(44)
Total tax expense	**2,631**	**3,506**

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

Group	£'000	£'000
Profit before tax	**13,919**	**16,433**
Profit before tax multiplied by the rate of corporation tax of 21.5% (2013: 23.25%)	3,026	3,820
Expenses not allowable for tax purposes	110	3
Rate change	2	36
Thin capitalisation adjustment	4	85
Adjustments in respect of prior years	(431)	(351)
Total tax expense	**2,711**	**3,593**
Effective tax rate %	**19.5%**	**21.9%**

The statutory rate of corporation tax was reduced to 21.0% from 1 April 2014. The Group was subject to corporation tax at a rate of 23.0% for the period 1 January to 31 March 2014, and 21.0% for the period 1 April 2014 to 31 December 2014, resulting in an effective rate of corporation tax of 21.5% for the full year in 2014. The forthcoming change in the corporation tax rate to 20% in future years will not materially affect the future tax charge.

11 Intangible fixed assets

Group - Goodwill	2014 £'000	2013 £'000	2014 £'000	2013 £'000
	Cost		NBV	
At 1 January	**656**	**656**	**656**	**656**
Amortisation			-	-
Amounts written off during the year	(656)	-	(656)	-
At 31 December	**-**	**656**	**-**	**656**

In accordance with the requirements of IAS 36, the Group completed an impairment review of the carrying value for goodwill as at 31 December 2014 to ensure that the carrying value is stated at no more than its recoverable amount. During this review the goodwill in relation to Loan Link Limited was deemed to be impaired and therefore written off in full to the income statement

Nemo Personal Finance Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

12 Investments

Company	2014 £'000	2013 £'000
Cost		
At 1 January	500	**500**
Amounts written off during the year	(500)	**-**
At 31 December	-	**500**

The company directly holds the entire ordinary share capital of Loan Link Limited, a company incorporated in England and Wales the principal activities of which are those of a loan broker and arrears management. The Group reviewed the carrying value and deemed that the investment is to be written off in full.

13 Property, plant and equipment

Group and Company 2014	IT software	Land and buildings	Equipment and vehicles	Total
Cost	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2014	723	83	6,074	6,880
Additions during the year	16	-	291	307
At 31 December 2014	**739**	**83**	**6,365**	**7,187**
Depreciation				
At 1 January 2014	(673)	(68)	(5,452)	(6,193)
Charge for the year	(28)	(8)	(387)	(423)
At 31 December 2014	(701)	(76)	(5,839)	(6,616)
Net book value				
At 31 December 2014	**38**	**7**	**526**	**571**

2013	IT software	Land and buildings	Equipment and vehicles	Total
Cost	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2013	681	83	5,699	6,463
Additions during the year	42	-	376	418
At 31 December 2013	**723**	**83**	**6,074**	**6,880**
Depreciation				
At 1 January 2013	(621)	(59)	(4,813)	(5,493)
Charge for the year	(52)	(9)	(639)	(700)
At 31 December 2013	**(673)**	**(68)**	**(5,452)**	**(6,193)**
Net book value				
At 31 December 2013	**50**	**15**	**622**	**687**

Notes to the financial statement
for the year ended 31 December 2014 (continued)

14 Loans and receivables

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

Group and Company	2014 Current £'000	Non-current £'000	2013 Current £'000	Non-current £'000
Customer loans	42,581	497,668	41,568	531,109
Less: impairment allowance	(2,000)	(23,516)	(1,960)	(25,196)
Net customer loans	**40,581**	**474,152**	**39,608**	**505,913**
Prepayments and accrued income	3,373	-	3,644	-
Unamortised loan origination costs	4,376	6,347	4,932	12,206
	48,330	**480,499**	**48,184**	**518,119**

Included within prepayments and accrued income for the Group and company accounts is £2,971k (2013: £3,287k) of accrued interest on outstanding loans.

Provision for impairment losses:

Group and Company	2014 £'000	2013 £'000
At 1 January	27,156	31,050
Amounts written off during the year	(3,871)	(9,164)
Provision for loan impairment	2,231	5,270
At 31 December	**25,516**	**27,156**

During 2014, the Group proactively engaged with a third party to investigate historic arrears cases and as a result £0.4m has been provided.

Nemo Personal Finance Limited

Notes to the financial statements
for the year ended 31 December 2014 (continued)

15 Trade and other payables

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

Group	**2014**	**2013**
	£'000	**£'000**
Social security and other taxes	99	99
Accruals and deferred income	675	759
Sundry creditors	72	318
	846	**1,176**

Company	**2014**	**2013**
	£'000	**£'000**
Social security and other taxes	99	99
Accruals and deferred income	675	759
Sundry creditors	72	318
	846	**1,176**

16 Regulatory provisions

Group	**2014**	**2013**
	£'000	**£'000**
At 1 January	**9,115**	**6,272**
Additions	3,978	8,000
Utilisation	(12,629)	(5,157)
At 31 December	**464**	**9,115**

Company	**2014**	**2013**
	£'000	**£'000**
At 1 January	**8,880**	**5,772**
Additions	3,978	8,000
Utilisation	(12,586)	(4,892)
At 31 December	**272**	**8,880**

Regulatory provisions have been made in respect of various customer claims, including claims in relation to previous sales of Payment Protection Insurance. It is expected that the liability will predominantly crystallise over the next 12 months.

The contingent aspect of this provision is described in note 26.

17 Financial liabilities

Group

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

	2014 £'000	2013 £'000
Current		
Bank overdrafts	**2,126**	**2,236**
Non-current		
Inter-company loans (see note 24)	**475,313**	**517,967**

All loans are with companies in the Principality Group of which the company is a member. Amounts due to Group companies are unsecured and obligations have no fixed repayment date.

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

	2014 £'000	2013 £'000
Current		
Bank overdrafts	**2,119**	**2,233**
Non-current		
Inter-company loans – Parent	475,094	517,258
Inter-company loans – Subsidiary (see note 24)	2,020	2,210
Total	**477,114**	**519,468**

18 Deferred tax

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

Group and Company	**At 1 January 2014 £'000**	**Statement of comprehensive income £'000**	**At 31 December 2014 £'000**
Assets			
Accelerated capital allowances	17	-	17
Other	253	-	253
Total	**270**	**-**	**270**
Liabilities			
Other	(36)	18	(18)
Total	**234**	**18**	**252**

The reduction of the UK Corporation tax rate to 20% from 1 April 2015 has resulted in a deferred tax charge arising from the reduction in the statement of financial position carrying value of the net deferred tax asset to reflect the anticipated rate of tax at which the asset is expected to reverse. The charge reflected in the income statement is not material.

19 Called up share capital

	2014 £'000	2013 £'000
Authorised		
100,000 ordinary shares of £1	**100**	**100**
Allotted and fully paid		
100,000 ordinary shares of £1	**100**	**100**

20 Retained profit

As permitted by section 408 of the Companies Act 2006, the statement of other comprehensive income of the parent company is not presented as part of these financial statements. The Group company realised a profit after tax for the financial year of £11.2m (2013: £12.8m).

21 Financial risk management

The main financial risks that the Group 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 Group's interest-bearing financial assets and liabilities.

  Interest rate risk is an inherent trading risk which is actively monitored by the Board and the Pricing Committee.

- Credit risk: the risk that counterparties to the Group's financial assets may default.

  The Group assesses all customers for credit risk before contracting with them. A range of policies and practices is employed to mitigate credit risk – the most common is the taking of security for funds advanced.

- Liquidity risk: the risk that the Group's cash and committed facilities may be insufficient to meet its debts as they fall due.

  The Group maintains a mixture of committed facilities, including primarily financial support from the parent, Principality Building Society, that are designed to ensure the Group has sufficient available funds for operations and planned expansion.

The Group'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 (www.principality.co.uk)

Nemo Personal Finance Limited

Notes to the financial statements
for the year ended 31 December 2014 (continued)

21 Financial risk management (continued)

Maturity of financial instruments – Group and Company

Financial assets 2014	Loans and receivables £'000	Financial liabilities 2014	Borrowings £'000
In one year or less	47,928	In one year or less	2,119
In more than one year but less than two years	43,002	In more than one year but less than two years	-
In more than two years but less than five years	91,949	In more than two years but less than five years	-
After five years	345,548	After five years	477,114
Total	**528,427**		**479,233**

Financial assets 2013	Loans and receivables £'000	Financial liabilities 2013	Borrowings £'000
In one year or less	47,827	In one year or less	2,233
In more than one year but less than two years	43,293	In more than one year but less than two years	-
In more than two years but less than five years	91,519	In more than two years but less than five years	-
After five years	383,307	After five years	519,468
Total	**565,946**		**521,701**

Interest rate risk on financial instruments - Company

The effective interest rates at 31 December 2014 were as follows:

	%
Financial assets	**8.2**
Loans and receivables	
Financial liabilities	
Borrowings	**2.7**

The effective interest rates at 31 December 2013 were as follows:

	%
Financial assets	**8.6**
Loans and receivables	
Financial liabilities	
Borrowings	**2.6**

21 Financial risk management (continued)

The Group's exposure to interest changes at 31 December 2014 was as follows:

	1 year £'000	1-5 years £'000	Total £'000
Financial assets			
Loans and receivables	528,829	-	**528,829**
Financial liabilities			
Borrowings	479,234	-	**479,234**

The Group's exposure to interest changes at 31 December 2013 was as follows:

	1 year £'000	1-5 years £'000	Total £'000
Financial assets			
Loans and receivables	566,303	-	**566,303**
Financial liabilities			
Borrowings	521,668	-	**521,668**

A sensitivity analysis showing the Group's sensitivity to changes in interest rates is presented in note 25e).

22 Contingencies and commitments

Operating lease commitments payable

The future aggregate minimum lease payments under non-cancellable operating leases fall due as follows:

	2014 £'000	2013 £'000
Less than one year	609	562
Later than one year but not later than five years	2,435	2,248
Later than five years	317	863
Total	**3,361**	**3,673**

Capital and other commitments

There were no capital commitments at 31 December 2014.

23 Events after the balance sheet date

There are no material post-balance sheet events.

Nemo Personal Finance Limited

Notes to the financial statements for the year ended 31 December 2014 (continued)

24 Related party transactions

The definition of related parties includes parent company, ultimate parent company, subsidiary and associated companies, 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, are disclosed in the tables below:

	2014		2013	
	Parent company	Fellow subsidiaries	Parent company	Fellow subsidiaries
	£'000	£'000	£'000	£'000
Funding from parent company				
Balance at start of year	517,258	2,210	542,448	1,749
Interest payable on funding	12,965	-	13,561	-
(Decrease)/increase in funding levels	(55,129)	(190)	(38,751)	461
Balance at end of year	**475,094**	**2,020**	**517,258**	**2,210**

Loan Link Limited provided services for Nemo Personal Finance Limited during the year for arrears management activities at a cost of £1,311k (2013: £1,387k).

25 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.

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Financial assets				
Loans and advances to customers	528,829	566,303	528,829	566,303
	528,829	**566,303**	**528,829**	566,303

The following assets are held at fair value through profit and loss:

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Deferred sale consideration	1,220	2,888	1,220	2,888
	1,220	**2,888**	**1,220**	**2,888**

25 Financial instruments disclosures (continued)

b) Carrying values and fair values

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

The majority of the financial assets and financial liabilities are held at variable rate. The 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.

	Group 2014 £000	Company 2014 £000
Loans and advances to customers	528,829	528,829

	Group 2013 £000	Company 2013 £000
Loans and advances to customers	566,303	566,303

The following assets are held at fair value through profit and loss:

	Group 2014 £000	Company 2014 £000
Deferred sale consideration	1,220	1,220

	Group 2013 £000	Company 2013 £000
Deferred sale consideration	2,888	2,888

25 Financial instruments disclosures (continued)

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.

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Financial assets				
Loans and advances to customers	539,750	565,946	539,750	565,946
Deferred sale consideration	1,220	2,888	1,220	2,888
	540,970	**568,834**	**540,970**	**568,834**

	Group 2014 £'000	%	Company 2014 £'000	%
In respect of loans and advances to customers:				
Fully secured by a second charge on residential property	511,536	**95%**	511,536	**95%**
Partially secured by a second charge on residential property	28,214	**5%**	28,214	**5%**
	539,750	**100**	**539,750**	**100**
Secured personal loans				
Fully secured by a second charge on residential property				
Personal loans – employed	461,385	**90%**	461,385	**90%**
Personal loans – self-employed	50,151	**10%**	50,151	**10%**
	511,536	**100**	**511,536**	**100**
Total loans fully secured on residential property	**511,536**		**511,536**	

Nemo Personal Finance Limited

Notes to the financial statements
for the year ended 31 December 2014 (continued)

25 Financial instruments disclosures (continued)

c) Credit risk (continued)

	Group 2013 £'000	%	Company 2013 £'000	%
In respect of loans and advances to customers:				
Fully secured by a second charge on residential property	534,654	94%	534,654	94%
Partially secured by a second charge on residential property	31,292	6%	31,292	6%
	565,946	**100%**	**565,946**	**100%**
Secured personal loans				
Fully secured by a second charge on residential property				
Personal loans – employed	475,188	89%	475,188	89%
Personal loans – self-employed	59,466	11%	59,466	11%
	534,654	**100%**	**534,654**	**100%**
Total loans fully secured on residential property	534,654		534,654	

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

	Group and Company 2014 £'000	%	Group and Company 2013 £'000	%
Current and up to date	495,720	91.84%	519,608	91.82%
Past due up to six months	22,245	4.12%	20,903	3.69%
Past due over six months	21,785	4.04%	25,435	4.49%
	539,750	**100%**	**565,946**	**100%**

An impairment provision of £25.5m (2013: £27.1m) has been provided for the anticipated losses on the above assets.

Nemo Personal Finance Limited

Notes to the financial statements
for the year ended 31 December 2014 (continued)

25 Financial instruments disclosures (continued)

c) Credit risk (continued)

The average loan to original value (LTV) in respect of the Group's loans secured on residential property is 76% (2013: 76.9%). Further LTV information based on original security valuation is shown below:

	Group		Company	
	2014	**2013**	**2014**	**2013**
	%	**%**	**%**	**%**
0-50%	9	8	9	8
50%-75%	39	37	39	37
75%-85%	25	25	25	25
More than 85%	27	30	27	30
	100	**100**	**100**	**100**

The average balance to current value (BTV) in respect of the Group's loans secured on residential property is 64.76% (2013: 74.8%). Further LTV information based on current security valuation is shown below:

	Group		Company	
	2014	**2013**	**2014**	**2013**
	%	**%**	**%**	**%**
0-50%	16	10	16	10
50%-75%	48	36	48	36
75%-85%	18	18	18	18
85%-100%	14	19	14	19
More than 100%	4	17	4	17
	100	**100**	**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.

e) Interest rate risk

The Group's exposure to interest rate risk is managed through close monitoring of interest rates on its loan products, which are all at variable interest rates.

The Group is funded by a variable interest rate loan from its parent, details of which are included in notes 17 and 21. The exposure to variable rate funding is managed through the close monitoring of variable interest rates on the Group's loan products and the rate on the loan to the Group from its parent.

25 Financial instruments disclosures (continued)

e) Interest rate risk (continued)

Interest rate sensitivity analysis

All loans are of a variable nature and funding is carried out at a group level considering both maturity and interest type. The Group sees the interest rate risk to be immaterial.

The Group 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 Group has a statutory duty to obtain the best reasonable price and to sell as soon as it reasonably can.

Forbearance

Despite the fact that the difficult economic conditions of the past year or two appear to have eased slightly through 2014, we continue to uphold our fair treatment of customer ethos in exploring all reasonable and appropriate account management and forbearance options for borrowers experiencing financial difficulty.

The Group offers a range of account management and forbearance options for borrowers. In the event of short-term difficulty the Group operates temporary reductions in payments and 'rehabilitation' tools for borrowers in arrears or pre-delinquency. Actions may include, but are not limited to, granting a revised payment schedule, temporary interest waiver, arrangements for the borrower to underpay and changing the payment date and/or payment method. During the year, the Group has worked with customers to apply the most appropriate solution given their individual circumstances.

Longer-term forbearance options include capitalisation of arrears, permanent interest suspension, arrangements to underpay and term extensions. We work closely with our customers who decide to sell their property as a result of their financial difficulties and consider shortfall sale request and full and final offers on a case-by-case basis. During the year nine accounts have been capitalised with a balance of £269,621 (2013: 30 accounts, £934,000). Capitalisation of arrears requires a qualifying period, with a number of qualifying payments being met prior to the restructure to confirm both affordability and sustainability. Any restructure will result in cases being classified and reported as up to date. Subsequent performance of accounts receiving this forbearance treatment is assessed and reported within our treating customers fairly, Business Conduct dashboard*. The impact of forbearance on the loan loss provision is £0.1m.

**As at 31 December 80% of accounts capitalised remained 'up to date' in the period 6-12 months following capitalisation.*

26 Provisions and contingent liabilities

Regulatory provision
Provisions have been made in respect of claims in relation to previous sales of Payment Protection Insurance (PPI) which, in the Group's case, relate to secured personal lending PPI products. In August 2010, the FSA released its Policy Statement PS10/12 on The Assessment and Redress of Payment Protection Complaints.

No provisions have been made during the period in relation to previous sales of payment protection insurance. At 31 December 2014 provisions of £0.4m are held in relation to PPI (£1.1m in 2013). The PPI remediation process is in its final stages.

The Group completed a detailed and comprehensive review of process and documentation in relation to compliance with consumer credit legislation. As at the 31 December 2014 the Group holds no provision in relation to this (2013: £8.0m). The remediation process is now complete and no further potential costs are foreseen.

Provisions are only made where the Group has responsibility for the original sale of the product. No provision has been made for sales by third parties as external legal advice has concluded that it is unlikely that the Group would be liable for redress in respect of such sales.

27 Investments in subsidiary undertakings

Nemo Personal Finance Limited owns 100% of the ordinary share capital of Loan Link Limited, which is incorporated in the UK. The principal activity of Loan Link Limited is loan broking. It has been included within the Group accounts.

28 Ultimate holding company

Principality Building Society is the parent of the smallest and largest Group of which the company 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 (www.principality.co.uk) and will be available on request from the Corporate Communications Team (029) 2077 3208 from 2015.