Nemo Personal Finance Limited

Annual report for the year ended
31 December 2022

Registered Number: 05188059

Annual report
for the year ended 31 December 2022

Contents

Officers and professional advisers

Directors	I A Mansfield A Grey (appointed 18th July 2022) T Denman (resigned 15th July 2022)
Secretary	A Smith
Registered office	Principality House The Friary Cardiff Wales CF10 3FA
Bankers	Barclays Bank Plc 3rd Floor Windsor Court Windsor Place Cardiff Wales CF10 3BX
Solicitors	TLT LLP One Redcliff Street Bristol BS1 6TP
Auditors	Deloitte LLP 5 Callaghan Square Cardiff Wales CF10 5BT

Strategic report
for the year ended 31 December 2022

Nemo Personal Finance Limited continued to fulfil 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 continues to focus on delivering good customer outcomes and robust cost management.

Key performance indicators

Year ended 31 December	2022	2021
Profit before tax (£000' s)	5,356	9,250
Profit before tax as a % of mean total assets*	5.2%	7.0%
Total loans and receivables (£000' s)	80,076	108,384
Change in total loans and receivables	(26.1)%	(23.2)%
Non-performing loans (6+ months in arrears) (£000' s)	6,319	7,346
Non-performing loans (6+ months in arrears) (volume)	200	248
Yield % (average interest rate across the loan book)	8.7%	8.7%

*calculated as the average of the total assets in the statement of financial position at the beginning and end of the year.

Business review

The loan book continues to run off with loans and receivables reducing to £80.1m (2021: £108.4m). Profit before tax has reduced to £5.4m (2021: £9.3m), in part due to the run-off of the portfolio and resulting decrease in interest receivable, and also due to a £0.8m loan loss impairment charge (2021: £2.4m release) as the company has made provision for increased loan losses likely to arise from the rising cost of living which is expected to impact some customers ability to make their loan repayments. The company is now fully funded following the repayment of the loan to the parent company in 2021.

Despite the future challenges anticipated loans in the portfolio continue to perform well, with a reduction in the overall balance of non-performing loans and only a small increase of 0.9% year on year of non-performing loans as a percentage of total balances. Provision levels have been reviewed with consideration given to the more pessimistic economic outlook for 2023 and 2024 and an ongoing cost of living crisis, which has led to an increase in impairment provisions held to £3.7m (2021: £3.1m).

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, 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 cost of living crisis 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 2022 (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.

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
22 February 2023

Directors' report
for the year ended 31 December 2022

The Directors present their report and the financial statements of the Company for the year ended 31 December 2022.

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 approved a dividend payment of £47m to the Parent company on 19 December 2022 (2021: £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 cost of living increases on customers ability to make loan repayments, and show that the Parent will be able to operate within the sources of funding currently available to it.

The company has a strong net asset position and strong forecasted profitability over the next three years. With the company now fully funded and operating with a minimal cost base the company is able to withstand significant economic or operational stress and continue to operate as a going concern.

In addition to the above, 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.

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 2022 (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). 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
22 February 2023

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 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; 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 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

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.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included assessing the entity's forecasted cashflows.

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 other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

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. These included the requirements of the Companies Act 2006.

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.

We identified the selection of macroeconomic scenarios and the associated weightings applied to the expected credit losses model as well as management's assessment of the impact of the growing cost-of-living crisis on customers' ability to repay the mortgages as the areas of the greatest potential for fraud. Our challenge of the significant risk identified included involvement of economic modelling and credit risk specialists. We evaluated the weightings applied to macroeconomic scenarios as well as the economic outlook under each of the scenarios with reference to available macroeconomic data. We assessed the appropriateness of the directors' assessment of the impact of the cost-of-living crisis, with support from our internal credit modelling specialists, by assessing whether the Post Model Adjustments ("PMAs") applied adequately address the risk and independently recalculated those PMAs which were included.

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 and in-house 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.

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

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.

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.

David Heaton

David Heaton (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Cardiff, United Kingdom
22 February 2023

Income statement
for the year ended 31 December 2022

Continuing operations:	Notes	2022 £'000	2021 £'000
Interest receivable and similar income	4	7,269	9,553
Interest payable and similar charges	5	-	(1,445)
Net interest income		**7,269**	**8,108**
Fees and commissions receivable		40	31
Net income		**7,309**	**8,139**
Impairment (charge)/release on loans	9	(796)	2,381
Regulatory provisions	11	(332)	(595)
Operating expenses		(825)	(675)
Profit before taxation	6	**5,356**	**9,250**
Income tax expense	8	(942)	(1,553)
Profit for the financial year		**4,414**	**7,697**

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 16 to 33 form part of these accounts.

Statement of changes in shareholders' equity for the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Profit for the financial year		4,414	7,697
Dividend paid to Parent company		(47,000)	-
Net (decrease)/increase to shareholders' equity		**(42,586)**	**7,697**
Opening shareholders' equity at 1 January		121,605	113,908
Closing shareholder's equity		**79,019**	**121,605**

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

The accounting policies and notes on pages 16 to 33 form part of these accounts.

Statement of financial position as at 31 December 2022

	Notes	2022 £'000	2021 £'000
Assets			
Loans and receivables	9	80,076	108,384
Deferred sale consideration		33	12
Current tax		100	-
Surplus cash paid to Parent company	18	1,662	16,003
Total assets		**81,871**	**124,399**
Liabilities			
Trade and other payables	10	290	392
Regulatory provisions	11	2,196	2,000
Short-term loans and overdrafts	12	343	344
Current tax		-	33
Deferred tax	13	23	25
Total liabilities		**2,852**	**2,794**
Equity			
Called up share capital	14	100	100
Retained profit		78,919	121,505
Total equity		**79,019**	**121,605**
Total equity and liabilities		**81,871**	**124,399**

The financial statements of Nemo Personal Finance Limited, registered number 05188059, on pages 12 to 33, were approved by the Board of Directors and authorised for issue on 16 February 2023.

I A Mansfield
Director
22 February 2023

Statement of cash flows
for the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Net cash inflow from operating activities:			
Cash from operating activities (see below)		47,001	23,889
Net cash from operating activities		**47,001**	**23,889**
Cash flows used in financing activities:			
Repayment of loan advanced to by Parent	18	-	(23,890)
Dividend paid to Parent		(47,000)	-
Net cash used in financing activities		**(47,000)**	**(23,890)**
Net increase/(decrease) in cash and cash equivalents		1	(1)
Cash and cash equivalents at start of year		(344)	(343)
Cash and cash equivalents at end of year		**(343)**	**(344)**
Cash and cash equivalents comprise:			
Short-term loans and overdrafts		**(343)**	**(344)**
Net cash inflow from operating activities:			
Profit for the year before tax	8	5,356	9,250
Adjusted for:			
Decrease/(increase) in surplus cash paid to Parent	6	14,341	(16,003)
Increase/(decrease) in provision for impairment	9	597	(2,769)
Increase in regulatory provisions	11	196	490
Decrease in loans and receivables		27,712	35,492
Decrease in deferred sale consideration		(21)	(4)
(Decrease)/increase in trade and other payables		(101)	12
Tax paid		(1,079)	(2,579)
Net cash inflow from operating activities		**47,001**	**23,889**

Notes to the financial statements for the year ended 31 December 2022

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 2022 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted for use within the UK. 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.

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 2022 (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 2022 (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 2022 (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 2022 (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.

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, however the impact is not material. 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	134
Stage 2 to stage 1	(88)

Post model adjustment - Cost of living

Record levels of inflation over the past 12 months has resulted in significant cost of living pressures and whilst total inflation is starting to fall food inflation remains high. These pressures are expected to continue into 2023 and there is a risk that this will result in increased levels of arrears and defaults that are not captured by the model. In response to this the PMA has identified customers susceptible to rising prices by using loan to income (LTI). Customers in stage 1 with LTI of 4.5 have been given an average stage 2 ECL, uplifting ECLs by £115k. Decreasing the LTI threshold to 4.0 would increase the uplift by £60k.

Industry Weightings Alignment

The governance and review of economic data used within the IFRS 9 models includes a peer benchmarking exercise, whilst the economic forecasts benchmark consistently with peers the peer benchmarking exercise identified an element of optimism within the weightings used, particularly given the likelihood that the UK is heading into a recession. In order to ensure a closer allignment to peers a PMA of £250k has been applied based on the impact of recalculating modelled provisions using industry average weightings. The increase is driven by an increase in the level of weightings applied to downturn scenarios from 30% to 41%.

Notes to the financial statements for the year ended 31 December 2022 (continued)

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

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 2023 to December 2027:

GDP Growth %	Weighting at 31 December 2022 %	2023 %	2024 %	2025 %	2026 %	2027 %
Base	50.0	2.8	3.4	2.5	2.3	2.2
Upside	20.0	5.3	3.1	2.1	2.3	2.4
Downside	23.0	3.2	2.1	(1.2)	3.6	2.9
Severe downside	7.0	(10.9)	(0.3)	4.1	2.8	1.7
Weighted average		**2.4**	**2.8**	**1.6**	**2.6**	**2.4**

Unemployment (Absolute)	Weighting at 31 December 2022 %	2023 %	2024 %	2025 %	2026 %	2027 %
Base	50.0	4.3	4.5	4.5	4.6	4.6
Upside	20.0	3.9	3.6	3.7	4.0	4.2
Downside	23.0	5.6	7.0	7.0	6.9	6.6
Severe downside	7.0	7.4	8.3	8.2	7.9	7.2
Weighted average		**4.7**	**5.1**	**5.2**	**5.2**	**5.2**

HPI Growth %	Weighting at 31 December 2022 %	2023 %	2024 %	2025 %	2026 %	2027 %
Base	50.0	(4.4)	2.3	4.8	2.9	0.8
Upside	20.0	9.0	5.4	2.1	(1.2)	(2.1)
Downside	23.0	(14.5)	(12.0)	1.9	5.5	2.6
Severe downside	7.0	(20.7)	(10.9)	4.4	4.3	3.4
Weighted average		**(5.2)**	**(0.7)**	**3.6**	**2.4**	**0.6**

Notes to the financial statements for the year ended 31 December 2022 (continued)

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

The equivalent scenarios at 31 December 2021 were as follows:

GDP Growth %	Weighting at 31 December 2021 %	2022 %	2023 %	2024 %	2025 %	2026 %
Base	50.0	6.8	4.6	2.5	1.7	2.1
Upside	20.0	11.3	3.7	2.9	2.3	2.3
Downside	23.0	(1.5)	5.3	2.9	2.2	2.1
Severe downside	7.0	(3.8)	4.1	2.1	2.1	1.9
Weighted average		**5.1**	**4.5**	**2.7**	**2.0**	**2.1**

Unemployment (Absolute)	Weighting at 31 December 2021 %	2022 %	2023 %	2024 %	2025 %	2026 %
Base	50.0	4.7	4.4	4.4	4.5	4.5
Upside	20.0	3.9	3.3	3.5	3.8	4.0
Downside	23.0	6.2	6.6	6.5	6.3	5.9
Severe downside	7.0	7.2	7.5	7.2	7.1	6.6
Weighted average		**5.1**	**4.9**	**4.9**	**4.9**	**4.9**

HPI Growth %	Weighting at 31 December 2021 %	2022 %	2023 %	2024 %	2025 %	2026 %
Base	50.0	3.4	6.0	5.2	3.7	2.0
Upside	20.0	14.2	8.5	4.8	2.1	0.7
Downside	23.0	(9.8)	(8.1)	(1.9)	4.4	8.3
Severe downside	7.0	(13.4)	(10.3)	(2.5)	4.3	7.7
Weighted average		**1.3**	**2.1**	**3.0**	**3.6**	**3.6**

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 £2.6m (2021: £2.9m). 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 2022, the Company held a provision of £2,196k (2021: £2,000k). 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.

Notes to the financial statements
for the year ended 31 December 2022 (continued)

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. There was no interest payable in 2022 as the loan from the Parent Company was repaid in 2021.

6. Profit before taxation

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 2022 were £717k (2021: £625k) and this includes audit fees relating to the Company.

7. Company employees and key management, including directors

The Company has no employees (2021: 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 A Grey 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.

Notes to the financial statements for the year ended 31 December 2022 (continued)

8. Income tax expense

	2022 £'000	2021 £'000
Current tax:		
United Kingdom corporation tax	935	1,667
Adjustments in respect of prior years	10	(124)
Deferred tax:		
Deferred tax (credit)/charge for year	(3)	10
Total tax expense	**942**	**1,553**

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.

	2022 £'000	2021 £'000
Profit before tax	**5,356**	**9,250**
Profit before tax multiplied by the rate of corporation tax of 19.00% (2021: 19.00%)	1,018	1,758
Adjustments in respect of prior years	10	(124)
Other	(86)	(81)
Total tax expense	**942**	**1,553**

9. *Loans and receivables*

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

	2022 £'000	2021 £'000
Customer loans	82,058	108,672
Less: impairment allowance	(3,732)	(3,135)
Net customer loans	**78,326**	**105,537**
Unamortised loan origination costs	1,332	2,289
Accrued interest	415	554
Other prepayments and accrued income	3	4
	80,076	**108,384**

Notes to the financial statements
for the year ended 31 December 2022 (continued)

9. *Loans and receivables (continued)*

Reconciliation of movement in impairment allowance

	2022 £'000	2021 £'000
Opening balance at 1 January	**3,135**	**5,904**
Settled loans	(347)	(608)
Changes in credit quality	957	(2,218)
Changes in model assumptions	-	-
Closing balance at 31 December	**3,732**	**3,135**
Balance sheet impact	610	(2,826)
Provision utilised	186	444
Income statement impact	796	(2,381)

PD Band	**2022 Sum of ECL £'000**	**2022 Coverage %**	**2021 Sum of ECL £'000**	**2021 Coverage %**
< 0.11%	-	-	-	-
0.11% - 0.17%	-	-	-	-
0.17% - 0.25%	1	4.8	-	-
0.25% - 0.41%	3	3.0	-	-
0.41% - 0.60%	37	0.4	6	-
0.60% - 0.88%	91	0.5	30	0.1
0.88% - 1.49%	127	0.8	69	0.3
1.49% - 2.96%	302	2.1	144	0.8
2.96% - 6.84%	239	3.9	146	2.1
> 6.84%	2,932	18.2	2,740	14.3
Total	**3,732**		**3,135**	

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 2022	**38**	**610**	**2,487**	**3,135**
Transfers:				
Stage 1 Transfers	(248)	-	-	(248)
Stage 2 Transfers	-	75	-	75
Stage 3 Transfers	-	-	173	173
Settled loans	(6)	(58)	(284)	(348)
Changes in credit quality	356	363	226	945
Changes in model assumptions	-	-	-	-
Loss allowance at 31 December 2022	**140**	**990**	**2,602**	**3,732**

Notes to the financial statements
for the year ended 31 December 2022 (continued)

9. Loans and receivables (continued)

	Stage 1 12-month ECL £'000	Stage 2 Lifetime ECL £'000	Stage 3 Lifetime ECL £'000	Total £'000
Loss allowance as at 1 January 2021	**113**	**1,749**	**4,042**	**5,904**
Transfers:				
Stage 1 Transfers	(114)	-	-	(114)
Stage 2 Transfers	-	(230)	-	(230)
Stage 3 Transfers	-	-	344	344
Settled loans	(17)	(246)	(345)	(608)
Changes in credit quality	56	(663)	(1,554)	(2,161)
Changes in model assumptions	-	-	-	-
Loss allowance at 31 December 2021	**38**	**610**	**2,487**	**3,135**

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 2022	**56,848**	**37,769**	**14,055**	**108,672**
Transfers:				
Stage 1 Transfers	(5,629)	-	-	(5,629)
Stage 2 Transfers	-	6,853	-	6,853
Stage 3 Transfers	-	-	(1,226)	(1,226)
Settled loans	(9,648)	(5,175)	(1,768)	(16,591)
Loan Repayments	(6,063)	(3,157)	(801)	(10,021)
Loan balance at 31 December 2022	**35,508**	**36,290**	**10,260**	**82,058**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Loan balance as at 1 January 2021	**87,995**	**39,683**	**15,107**	**142,785**
Transfers:				
Stage 1 Transfers	(7,735)	-	-	(7,735)
Stage 2 Transfers	-	6,437	-	6,437
Stage 3 Transfers	-	-	1,298	1,298
Settled loans	(14,315)	(5,183)	(1,665)	(21,163)
Loan Repayments	(9,098)	(3,168)	(685)	(12,951)
Loan balance at 31 December 2021	**56,848**	**37,769**	**14,055**	**108,672**

Notes to the financial statements for the year ended 31 December 2022 (continued)

9. Loans and receivables (continued)

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

Stage	2022 %	2021 %
1	47	56
2	42	34
3	11	10

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

Staging reason	2022 %	2021 %
PD grade deterioration	92	93
30-60 days past due	8	7

10. Trade and other payables

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

	2022 £'000	2021 £'000
Accruals and deferred income	10	45
Sundry creditors	280	347
	290	**392**

11. Regulatory provisions

	2022 £'000	2021 £'000
At 1 January	**2,000**	**1,510**
Utilisation	(136)	(105)
Charge / Release during the year	332	595
At 31 December	**2,196**	**2,000**

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.

Notes to the financial statements for the year ended 31 December 2022 (continued)

12. Financial liabilities

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

	2022 £'000	2021 £'000
Current:		
Bank overdrafts	343	343

13. Deferred tax

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

	1 January 2022 £'000	Income Statement £'000	31 December 2022 £'000
Assets			
Depreciation in excess of capital allowances	123	(22)	101
Liabilities			
IFRS 9 transitional adjustment	(148)	24	(124)
Total	**(25)**	**2**	**(23)**

	1 January 2021 £'000	Income Statement £'000	31 December 2021 £'000
Assets			
Depreciation in excess of capital allowances	116	7	123
Liabilities			
IFRS 9 transitional adjustment	(131)	(17)	(148)
Total	**(15)**	**(10)**	**(25)**

The rate of corporation tax for the 2022 financial year was 19%, the rate from 1 April 2023 is expected to be 25%.

14. Called up share capital

	2022 £'000	2021 £'000
Authorised, allotted and fully paid		
100,000 ordinary shares of £1	100	100

Notes to the financial statements
for the year ended 31 December 2022 (continued)

15. 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.
- *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	**2022 £'000**	**2021 £'000**
In one year or less	343	344
In more than one year but less than two years	-	-
In more than two years but less than five years	-	-
	343	**344**

The Company's exposure to interest rate changes at 31 December 2022 was as follows:

	1 year £'000	**1-5 years £'000**	**Total £'000**
Financial assets			
Loans and receivables	82,058	-	**82,058**
Surplus cash paid to Parent company	1,662	-	**1,662**
Financial liabilities			
Borrowings	-	-	-

Notes to the financial statements for the year ended 31 December 2022 (continued)

15. Financial risk management (continued)

The Company's exposure to interest rate changes at 31 December 2021 was as follows:

	1 year £'000	1-5 years £'000	Total £'000
Financial assets			
Loans and receivables	108,672	-	**108,672**
Surplus cash paid to Parent company	16,003		**16,003**
Financial liabilities			
Borrowings	-	-	-

All financial assets and liabilities are on variable interest rates.

16. Contingencies and commitments

Capital and other commitments

There were no capital commitments at 31 December 2022 (2021: none).

17. Events after the balance sheet date

There are no post-balance sheet events.

18. 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, are disclosed in the tables below:

	2022 Parent company £'000	2021 Parent company £'000
Funding from parent company		
Balance at start of year	-	23,890
Interest payable on funding	-	1,445
Decrease in funding levels	-	(25,335)
Balance at end of year	-	-

The intercompany loan was repaid to the Parent Company in 2021.

	2022 £'000	2021 £'000
Surplus cash paid to Parent company		
Balance at start of year	16,003	-
Cash paid to Parent Company	32,659	16,003
Dividend to Parent Company	(47,000)	-
Balance at end of year	**1,662**	**16,003**

Notes to the financial statements for the year ended 31 December 2022 (continued)

18. Related party transactions (continued)

Due to treasury assets being managed at Group level, and with the intercompany loan being repaid during 2021, the surplus cash held was paid out to the Parent Company. This has been represented as an asset on the statement of Financial Position as an amount paid to the Parent. In 2022, the asset was reduced and a dividend of £47m (2021: nil) was paid to the Parent Company during the year.

19. 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	**2022 £'000**	**2021 £'000**
Loans and receivables	82,058	108,672
Surplus cash paid to Parent company	1,662	16,003

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	**2022 £'000**	**2021 £'000**
Loans and advances to customers	82,058	108,672

Fair Value	**2022 £'000**	**2021 £'000**
Loans and advances to customers	79,837	109,909

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.

	2022 £'000	**2021 £'000**
Financial assets		
Loans and advances to customers	80,073	108,380
	80,073	**108,380**

Notes to the financial statements for the year ended 31 December 2022 (continued)

19. Financial instruments disclosures (continued)

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

	2022		2021	
	£'000	%	£'000	%
Current and up to date	69,623	85.0	93,553	86.0
Past due up to six months	6,125	7.4	7,779	7.2
Past due over six months	6,310	7.6	7,340	6.8
	82,058	**100.0**	**108,672**	**100.0**

An impairment provision of £3,732k (2021: £3,135k) has been provided for the anticipated losses on the above assets.

The average loan to original value (LTV) in respect of the Company's loans secured on residential property is 46% (2021: 49%). Further LTV information based on original security valuation is shown below:

	2022	2021
	%	%
0 - 50%	65.1	53.7
50% - 75%	30.6	40.8
75% - 85%	3.2	4.1
More than 85%	1.1	1.4
	100.0	**100.0**

The average balance to current value (BTV) in respect of the Company's loans secured on residential property is 53% (2021: 58%). Further LTV information based on current security valuation is shown below:

	2022	2021
	%	%
0 - 50%	44.8	33.1
50% - 75%	45.2	51.7
75% - 85%	5.5	9.7
85% - 100%	4.5	5.5
	100.0	**100.0**

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 2022 (continued)

19. 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, details of which are included in note 15.

Following repayment of the loan to the Parent company in 2021, the Company is now fully funded and interest rate risk is considered to be minimal.

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.

20. Provisions

Regulatory provision

Provisions have been made in respect of historic customers claims (note 11). At 31 December 2022, provisions of £2,196k were held (2021: £2,000k). There remains a significant degree of uncertainty with regard to the ultimate cost of settling customer claims. Further information is provided in note 2.

21. 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).