Conister Bank Limited

Directors' report and financial statements
For the year ended 31 December 2018

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Directors

David Gibson (71)* ≠
Non-executive Chairman

Alan Clarke (68)*
Non-executive Director

Denham Eke (67)
Non-executive Director

Douglas Grant (54)
Managing Director

Ian Morley (67) ≠
Non-executive Director

James Smeed (34)
Finance Director

* Member of the Audit, Risk and Compliance Committee
≠ Independent Non-executive Director

Company Secretary

Rachel Bradley

Registered Office

Clarendon House
Victoria Street
Douglas
Isle of Man IM1 2LN

Advisers

Independent Auditor
KPMG Audit LLC
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

Legal Advisers
Long & Humphrey
The Old Courthouse
Athol Street
Douglas
Isle of Man IM1 1LD

Principal Bankers
Royal Bank of Scotland
135 Bishopsgate
London EC2M 3UR

Consulting Actuaries
Boal & Co Ltd
Marquis House
Isle of Man Business Park
Douglas
Isle of Man IM2 2QZ

Pension Fund Investment Manager
Thomas Miller Investment (Isle of Man) Limited
Level 2 Samuel Harris House
5-11 St Georges Street
Douglas
Isle of Man IM1 1AJ

The Directors have pleasure in submitting their annual report and the audited financial statements for the year ended 31 December 2018.

Principal activities

The principal activities of Conister Bank Limited (the "Bank") and its subsidiaries (together referred to as the "Group") are the provision of asset, wholesale and personal finance.

The Bank holds a class 1 (1) deposit taking licence under part 2 of the Isle of Man Financial Services Act 2008. Deposits made with the Bank are covered by the Isle of Man Depositors' Compensation Scheme contained in the Banking Business (Compensation of Depositors) Regulations 1991.

Results and dividends

The Directors do not propose the payment of a dividend (2017: £nil). The proposed transfers to and from reserves are as set out in the Consolidated and Bank Statement of Changes in Equity on page 13.

Share capital

Particulars of the authorised and issued share capital of the Bank are set out in note 24 to the financial statements.

Significant shareholdings

All of the issued shares of the Bank are held by Manx Financial Group PLC ("MFG").

Directors

Details of current Directors are set out on page 1. Trevor Kirk retired on 28 September 2018.

Directors' liability insurance

The Bank maintains insurance cover for Directors' liability in relation to the Group.

Fixed assets

The movement in fixed assets during the year is set out in note 16 to the financial statements.

Staff

At 31 December 2018 there were 66 members of staff, 5 of whom were part-time (2017: 56 members of staff, 7 of whom were part-time).

Investments in subsidiaries

Investments in the Bank's subsidiaries are disclosed in note 18 to the financial statements.

Auditor

KPMG Audit LLC, being eligible, has expressed its willingness to continue in office in accordance with Section 12(2) of the Isle of Man Companies Act 1982.

By order of the Board

Rachel Bradley
Company Secretary
27 March 2019

As an Isle of Man registered Bank there is no requirement to produce a corporate governance report. However, the Board follows best practice and therefore has prepared such a report.

The Bank is licensed by the Isle of Man Financial Services Authority. They have issued guidance designed to assist banks in enhancing their corporate governance frameworks which the Bank follows to the extent which is appropriate to its nature and scale of operations. This report outlines the approach taken by the Bank in respect of corporate governance.

The Role of the Board

The Board is collectively responsible for the long-term success of the organisation. Its principal function is to determine the strategy and policies of the Bank within an effective control framework which enables risk to be assessed and managed. The Board ensures that the necessary financial and human resources are in place for the Bank to meet its objectives and that business and management performances are reviewed. Furthermore, the Board ensures that the Bank operates within its constitution, relevant legislation and regulation and that proper accounting records and effective systems of business control are established, maintained, documented and audited.

Audit, Risk and Compliance Committee ("ARCC")

The ARCC meets at least six times each year and comprises two Non-executive Directors, currently Alan Clarke (Chairman) and David Gibson. The Executive Directors and representatives from compliance and risk, the internal and external auditor attends by invitation. Its role is to be responsible for reviewing the integrity of the financial statements and the balance of information disclosed in the accompanying Directors' Report, to review the effectiveness of internal controls and risk management systems, to monitor and review the effectiveness of the internal audit function and to consider and recommend to the Board (for approval by the members) the appointment or re-appointment of the external auditor. The ARCC reviews and monitors the external auditor's objectivity, competence, effectiveness and independence, ensuring that if they or their associates are invited to undertake non-audit work it will not compromise auditor objectivity and independence.

Remuneration Committee

The Remuneration Committee usually meets at least twice a year and comprises two Non-executive Directors, currently Alan Clarke (Chairman) and David Gibson. The Head of Human Resources and external advisers attend by invitation when appropriate. The committee is responsible for determining the remuneration of the Managing Director, the Chairman, other Non-executive Directors, the Executive Directors, the Company Secretary and other members of the management. The committee members do not take part in discussions concerning their own remuneration.

Nomination Committee

The Nomination Committee is comprised of the whole MFG Board. It is chaired by the Chairman of the MFG Board and is responsible for making recommendations to the Board on matters relating to the composition of the Board, including Executive and Non-executive Director succession planning, the appointment of new Directors and the election and re-election of Directors where applicable.

Division of Responsibilities

The offices of Chairman and Managing Director are distinct and held by different people. The role of each is set out in their respective job descriptions. The Chairman is responsible for leading the Board, ensuring its effectiveness in all aspects of its role and promoting a culture of openness of debate. The Managing Director is responsible for managing the Bank's business and operations within the parameters set by the Board.

The Chairman

The Chairman sets the direction of the Board and promotes a culture of openness and debate by facilitating the effective contribution of Non-executive Directors and ensuring constructive relations between Executive and Non-executive Directors. The Chairman also ensures that Directors receive accurate, timely and clear information. The Board of Directors is committed to best practice in corporate governance.

Non-executive Directors

The Non-executive Directors are responsible for bringing independent judgement to the discussions held by the Board, using their breadth of experience and understanding of the business. Their key responsibilities are to constructively challenge and contribute to strategic proposals, and to monitor performance, resources, and standards of conduct, compliance and control, whilst providing support to executive management in developing the Bank.

The Composition of the Board

At the year end, the Board comprised four Non-executive Directors and two Executive Directors. At least two Non-executive Directors are considered by the Board to be independent in character and judgement and to have an appropriate balance of skills and experience. They are also considered to be free of any relationship or circumstances which could materially interfere with the exercise of their judgement, impede the provision of constructive challenge to management and provide assistance with the development of strategy.

Appointments to the Board

The principal purpose of the Nomination Committee is to undertake the assessment of the balance of skills, experience, independence and knowledge on the Board against the requirements of the business, with a view to determining whether any shortages exist. Having completed the assessment, the committee makes recommendations to the Board accordingly. Appointments to the Board are made on merit, with due regard to the benefits of diversity. Within this context, the paramount objective is the selection of the best candidate, irrespective of background, and it is the view of the Board that establishing quotas or targets for the diversity of the Board is not appropriate.

All Director appointments must be approved by the Isle of Man Financial Services Authority, as required under the Financial Services Rulebook 2016, before they are appointed to the Board.

Commitment

Prior to appointment, Non-executive Directors are required to demonstrate that they are able to allocate sufficient time to undertake their duties.

Development

All new Directors undergo formal induction with any training or development needs being identified during this process. Directors continue to attend external and internal seminars and presentations to maintain and update their knowledge and skills demonstrating a commitment to continuous professional development.

Information and Support

The Chairman ensures that the Board receives accurate, timely and clear information in a form and of sufficient quality to enable it to fulfil its responsibilities.

All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring compliance with all Board procedures and advising the Board on governance matters.

Evaluation

An internal process exists to evaluate, on an annual basis, the performance and effectiveness of individual Directors and of the Board and its Committees.

Financial and Business Reporting

The Board confirms that the Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to assess the Bank's, business model and strategy. The responsibilities of the Directors in relation to the preparation of the Bank's Financial Statements are set out on page 6.

Risk Management and Internal Control

The Board is responsible for determining a framework for risk management and control. Senior management are responsible for designing, operating and monitoring risk management and internal control processes in line with the risk appetite and tolerance while the ARCC is responsible for reviewing the adequacy and effective operation of these processes. The role of the ARCC is described previously, and provides the Board with independent assurance that the Bank is operating specifically in accordance with the risk appetite parameters determined and approved by the Board and to ensure that the outcomes for the Bank's various activities are in line with those parameters.

The system of internal control overall is designed to enable the Bank to achieve its corporate objectives within the Board's pre-determined risk appetite, not to eliminate risk. The internal audit function, performed in-house, provides independent and objective assurance that these processes are appropriate and effectively applied.

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), as applicable to an Isle of Man Company.

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 Bank and of their profit or loss for that period. In preparing each of the Group and Bank financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Acts 1931 to 2004. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the member of Conister Bank Limited

Opinion
We have audited the financial statements of Conister Bank Limited (the "Bank") for the year ended 31 December 2018 which comprise the Consolidated and Bank Statements of Profit or Loss and Other Comprehensive Income, Financial Position, Changes in Equity, Cash Flows and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2018 and of the Group's and Bank's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), as applicable to an Isle of Man Company; and
- have been properly prepared in accordance with the requirements of the Companies Acts 1931 to 2004.

Emphasis of Matter - Reclaim of Value Added Tax (VAT)
We draw attention to note 19 to the financial statements concerning a reclaim of VAT in relation to a revised Partial Exemption Special Method. The Group's total exposure in relation to this matter is £1,049,000, comprising a debtor balance of £936,000 in respect of retrospective VAT and an amount of £113,000 reclaimed under the revised method. As detailed in note 19, the ultimate recovery of the debtor balance and the decision as to whether the VAT already reclaimed will be required to be repaid rests on the outcome of discussions with the Isle of Man Government Customs and Excise Division ("C&E"), following the determination by the Court of the European Union of the dispute between Volkswagen Financial Services (UK) Limited v HM Revenue & Custom. Due to the inherent uncertainty of this matter the amount of the VAT debtor balance recovered and the amount of the sum already reclaimed that will be required to be repaid may differ materially from the amounts stated in the financial statements. Our opinion is not modified in respect of this matter.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern
The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Bank or to cease its operations, and as they have concluded that the Bank's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Group and Bank's business model and analysed how those risks might affect the Group and Bank's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Bank will continue in operation.

Other information
The directors are responsible for the other information presented with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Matters on which we are required to report by exception
Under the Companies Acts 1931 to 2004, we are required to report to you if, in our opinion:

- proper books of account have not been kept by the Bank and proper returns adequate for our audit have not been received from branches not visited by us; or
- the Bank's financial statements are not in agreement with the books of account 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 these respects.

Directors' responsibilities
As explained more fully in their statement set out on page 6, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Bank'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 they either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent Auditor's Report to the member of Conister Bank Limited (continued)

The purpose of our audit work and to whom we owe our responsibilities.

This report is made solely to the Bank's member, as a body, in accordance with Section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Bank's member 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 Bank and the Bank's member as a body, for our audit work, for this report, or for the opinions we have formed.

KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

28 March 2019

For the year ended 31 December	Note	2018 £000	Restated (Note 30) 2017 £000
Interest income	6	19,159	19,830
Interest expense		(4,010)	(3,210)
Net interest income		15,149	16,620
Fee and commission expense		(6,099)	(8,407)
Net trading income		9,050	8,213
Other operating income		230	188
Loss on trading assets	12	(4)	(21)
Realised gains on debt securities	13	136	36
Terminal funding	3(n)	73	90
Operating income		9,485	8,506
Personnel expenses		(3,537)	(3,180)
Other expenses		(2,648)	(2,498)
Impairment of loans and advances from customers	7	(857)	(585)
Depreciation	16	(119)	(74)
Amortisation	17	(172)	(107)
Share of profit of equity accounted investees, net of tax	18	28	38
Gain on write off of intercompany payable	18	-	216
Impairment of intercompany receivables	18	(105)	(149)
VAT recovery	19	119	65
Profit before tax payable	8	2,194	2,232
Income tax	9	(243)	(240)
Profit for the year after taxation		1,951	1,992
Other comprehensive income			
Items that will be reclassified to profit or loss			
Unrealised gains/(losses) on debt securities taken to equity	13	44	(93)
Items that will never be reclassified to profit or loss			
Actuarial (losses)/gains on defined benefit pension scheme taken to equity	23	(50)	30
Total comprehensive income for the year attributable to owners		1,945	1,929

The notes on pages 16 to 46 form part of these financial statements.

The Directors believe that all results derive from continuing activities.

For the year ended 31 December	Note	2018 £000	Restated (Note 30) 2017 £000
Interest income	6	18,959	19,772
Interest expense		(3,981)	(3,184)
Net interest income		14,978	16,588
Fee and commission expense		(6,101)	(8,405)
Net trading income		8,877	8,183
Other operating income		224	180
Loss on trading assets	12	(4)	(21)
Realised gains on debt securities	13	136	36
Terminal funding	3(n)	73	90
Operating income		9,306	8,468
Personnel expenses		(3,371)	(3,134)
Other expenses		(2,562)	(3,031)
Impairment of loans and advances to customers	7	(857)	(556)
Depreciation		(119)	(69)
Amortisation		(172)	(107)
Share of profit of equity accounted investees, net of tax	18	28	38
Gain on write off of intercompany payable	18	-	216
Impairment of intercompany receivables	18	(105)	(149)
VAT recovery	19	119	65
Profit before tax payable	8	2,267	1,741
Income tax expense	9	(243)	(164)
Profit for the year after taxation		2,024	1,577
Other comprehensive income			
Items that will be reclassified to profit or loss			
Unrealised gains/(losses) on debt securities taken to equity	13	44	(93)
Items that will never be reclassified to profit or loss			
Actuarial (gains)/losses on defined benefit pension scheme taken to equity	23	(50)	30
Total comprehensive income for the year attributable to owners		2,018	1,514

The notes on pages 16 to 46 form part of these financial statements.

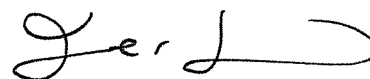
The Directors believe that all results derive from continuing activities.

As at 31 December	Note	2018 £000	Restated (Note 30) 2017 £000	Restated (Note 30) 2016 £000
Assets				
Cash and cash equivalents	11	7,154	9,069	5,519
Debt securities	13	30,534	34,272	23,991
Trading assets	12	20	24	70
Loans and advances to customers	14	148,786	123,198	115,066
Trade and other receivables	19	1,815	1,139	1,524
Amounts due from Group undertakings	18	307	55	321
Property, plant and equipment	16	1,192	215	442
Intangible assets	17	601	280	-
Investment in associates	18	66	38	-
Goodwill	15	448	448	448
Total assets		190,923	168,738	147,381
Liabilities				
Deposits from customers	20	158,500	142,272	125,952
Creditors and accrued charges	21	1,754	2,807	2,791
Block creditors	22	138	750	-
Amounts due to Group undertakings	18	1,208	-	150
Subordinated loans	27	7,450	5,450	5,000
Pension liability	23	583	560	614
Deferred tax liability	9	88	42	41
Total liabilities		169,721	151,881	134,548
Equity				
Called up share capital	24	9,100	6,700	5,000
Retained earnings		12,102	10,157	7,833
Total equity		21,202	16,857	12,833
Total liabilities and equity		190,923	168,738	147,381

The financial statements were approved by the Board of Directors on 27 March 2019 and signed on their behalf by:

David Gibson
Chairman

Douglas Grant
Managing Director


James Smeed
Finance Director

The notes on pages 16 to 46 form part of these financial statements.

As at 31 December	Note	2018 £000	Restated (Note 30) 2017 £000	Restated (Note 30) 2016 £000
Assets				
Cash and cash equivalents	11	6,909	8,214	5,407
Debt securities	13	30,534	34,272	23,991
Trading assets	12	20	24	70
Loans and advances to customers	14	144,619	122,319	115,066
Trade and other receivables	19	1,780	1,138	1,520
Amounts due from Group undertakings	18	1,991	15	321
Property, plant and equipment		1,182	215	423
Intangible assets		578	280	-
Investment in Group undertakings	18	1,011	1,011	10
Investment in associates	18	66	38	-
Goodwill	15	448	448	448
Total assets		189,138	167,974	147,256
Liabilities				
Deposits from customers	20	158,500	142,272	125,952
Creditors and accrued charges	21	1,718	2,666	2,738
Amounts due to Group undertakings	18	1,946	2,549	1,690
Subordinated loans	27	7,450	5,450	5,000
Pension liability	23	583	560	614
Deferred tax liability	9	88	42	41
Total liabilities		170,285	153,539	136,035
Equity				
Called up share capital	24	9,100	6,700	5,000
Retained earnings		9,753	7,735	6,221
Total equity		18,853	14,435	11,221
Total liabilities and equity		189,138	167,974	147,256

The financial statements were approved by the Board of Directors on 27 March 2019 and signed on their behalf by:

David Gibson
Chairman

Douglas Grant
Managing Director

James Smeed
Finance Director

The notes on pages 16 to 46 form part of these financial statements.

Group	Share Capital £000	Retained earnings and other reserves £000	Total £000
Balance as at 31 December 2016 (as previously stated)	5,000	7,957	12,957
Retrospective impact on initial application IFRS 9 (see note 2(e))	-	(124)	(124)
Restated balance at 31 December 2016	5,000	7,833	12,833
Profit for the year after taxation	-	1,992	1,992
Other comprehensive income	-	(63)	(63)
Acquisition of subsidiary	-	395	395
Transactions with owners:			
Shares issued	1,700	-	1,700
Dividend to equity holders	-	-	-
Restated balance as at 31 December 2017	6,700	10,157	16,857
Profit for the year after taxation	-	1,951	1,951
Other comprehensive income	-	(6)	(6)
Transactions with owners:			
Shares issued	2,400	-	2,400
Dividend to equity holders	-	-	-
Balance as at 31 December 2018	9,100	12,102	21,202

Bank	Share Capital £000	Retained earnings and other reserves £000	Total £000
Balance as at 31 December 2016 (as previously stated)	5,000	6,345	11,345
Retrospective impact on initial application IFRS 9 (see note 2(e))	-	(124)	(124)
Restated balance at 31 December 2016	5,000	6,221	11,221
Profit for the year after taxation	-	1,577	1,577
Other comprehensive income	-	(63)	(63)
Transactions with owners:			
Shares issued	1,700	-	1,700
Dividend to equity holders	-	-	-
Restated balance as at 31 December 2017	6,700	7,735	14,435
Profit for the year after taxation	-	2,024	2,024
Other comprehensive income	-	(6)	(6)
Transactions with owners:			
Shares issued	2,400	-	2,400
Dividend to equity holders	-	-	-
Balance as at 31 December 2018	9,100	9,753	18,853

The notes on pages 16 to 46 form part of these financial statements.

For the year ended 31 December	Note	2018 £000	2017 £000
RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS			
Profit before tax on continuing activities		2,194	2,232
Adjustments for:			
Depreciation	16	119	74
Amortisation	17	172	107
Realised gain on debt securities	13	(136)	(36)
Change in share in net assets of associate	18	(28)	(38)
Changes in:			
Trading assets	12	4	46
Trade and other receivables		(676)	385
Creditors and accrued charges		(1,068)	9
Amounts due from Group undertakings		(252)	266
Amounts due to Group undertakings		1,208	(150)
Net cash inflow from trading activities		1,537	2,895
Changes in:			
Loans and advances to customers		(25,588)	(8,132)
Deposits from customers		16,228	16,320
Pension contributions	23	(27)	(24)
Cash (outflow)/inflow from operating activities		(7,850)	11,059
CASH FLOW STATEMENT			
Cash from operating activities			
Cash (outflow)/inflow from operating activities		(7,850)	11,059
Income taxes paid		(182)	(232)
Net cash (outflow)/inflow from operating activities		(8,032)	10,827
Cash flows from investing activities			
Purchase of property, plant and equipment	16	(1,096)	(84)
Purchase of intangible assets	17	(493)	(171)
Sale of tangible fixed assets	17	-	21
Purchase of debt securities at FVOCI	13	(1,614)	(4,806)
Sale/(purchase) of debt securities at amortised cost	13	5,532	(5,532)
Cash acquired on acquisition of subsidiary	18	-	395
Net cash inflow/(outflow) from investing activities		2,329	(10,177)
Cash flows from financing activities			
Receipt of subordinated loans	27	2,000	450
Increase in share capital	24	2,400	1,700
(Reduction)/increase in block creditors	22	(612)	750
Net cash inflow from financing activities		3,788	2,900
(Decrease)/increase in cash and cash equivalents		(1,915)	3,550
Included in cash flows are:			
Interest received - cash amounts		18,772	19,407
Interest paid - cash amounts		3,880	(3,106)

The notes on pages 16 to 46 form part of these financial statements.

For the year ended 31 December	Note	2018 £000	2017 £000
RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS			
Profit before tax on continuing activities		2,267	1,741
Adjustments for:			
Depreciation		119	69
Amortisation		172	107
Realised gain on debt securities	13	(136)	(36)
Change in share in net assets of associate	18	(28)	(38)
Changes in:			
Trading assets	12	4	46
Trade and other receivables		(642)	382
Creditors and accrued charges		(963)	(72)
Amounts due from Group undertakings		(1,976)	306
Amounts due to Group undertakings		(603)	859
Net cash (outflow)/inflow from trading activities		(1,786)	3,364
Changes in:			
Loans and advances to customers		(22,300)	(7,253)
Deposits from customers		16,228	16,320
Pension contributions	23	(27)	(24)
Cash (outflow)/inflow from operating activities		(7,885)	12,407

CASH FLOW STATEMENT	Note	2018 £000	2017 £000
Cash flows from operating activities			
Cash (outflow)/inflow from operating activities		(7,885)	12,407
Income taxes paid		(182)	(163)
Net cash (outflow)/inflow from operating activities		(8,067)	12,244
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,086)	(98)
Purchase of intangible assets		(470)	(171)
Sale of tangible fixed assets	16	-	21
Purchase of debt securities at FVOCI	13	(1,614)	(4,806)
Sale/(purchase) of debt securities at amortised cost	13	5,532	(5,532)
Acquisition of subsidiary	18	-	(1,001)
Net cash inflow/(outflow) from investing activities		2,362	(11,587)
Cash flows from financing activities			
Receipt of subordinated loans	27	2,000	450
Increase in share capital	24	2,400	1,700
Net cash inflow from financing activities		4,400	2,150
(Decrease)/Increase in cash and cash equivalents		(1,305)	2,807
Included in cash flows are:			
Interest received - cash amounts		18,576	19,664
Interest paid - cash amounts		(3,852)	(3,081)

The notes on pages 16 to 46 form part of these financial statements.

1. Reporting entity

Conister Bank Limited (the "Bank") is a Bank incorporated in the Isle of Man. The consolidated financial statements of the Bank for the year ended 31 December 2018 comprise the Bank and its subsidiaries (the "Group").

A summary of the principal accounting policies, which have been applied consistently, are set out below:

2. Basis of preparation

(a) Statement of compliance

The consolidated and separate financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations applicable to companies reporting under IFRS, including International Accounting Standards ("IAS"), on a going concern basis.

The Group has continued to apply the accounting policies used for the 2017 annual report, with the exception of those listed below.

The Group has adopted IFRS 9 Financial Instruments (see Note 2(e)), including any consequential amendments to other standards, with a date of initial application of 1 January 2018:

(b) Basis of measurement

The financial statements are prepared on a historical cost basis except:

- Financial instruments at fair value through profit or loss are measured at fair value; and
- Available for sale financial instruments are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in pounds sterling, which is the Group's functional currency. Except as indicated, financial information presented in pounds sterling has been rounded to the nearest thousand. All subsidiaries of the Group have pounds sterling as their functional currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 3(k).

(e) Changes in significant accounting policies

The Bank has initially adopted IFRS 9 from 1 January 2018.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these financial statements.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require separate presentation in the Statement of Other Comprehensive Income of interest revenue calculated using the effective interest method.

The key changes to the Group's accounting policies resulting from the Group's adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 30.

2. Basis of preparation (continued)
(e) Changes in significant accounting policies (continued)

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). IFRS 9 classification is generally based on the business model in which a financial asset is manged and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income ("OCI"); and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Group classifies financial assets and liabilities under IFRS 9, See note 3(c)(ii).

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively,

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see note 30.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Group's fee income from contracts with customers was not impacted by the adoption of IFRS 15.

3. Significant accounting policies

(a) Basis of consolidation of subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-Group balances, income and expenses and unrealised losses or gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

(b) Property, plant and equipment and intangible assets

Items of property, plant and equipment are stated at historical cost less accumulated depreciation (see below). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

3. Significant accounting policies (continued)
(b) Property, plant and equipment and intangible assets (continued)

When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

An intangible asset is an identifiable non-monetary asset without physical substance. An item is identifiable if it is separable or arises from contractual or other legal rights. The initial measurement of an intangible asset depends on whether it has been acquired separately or has been acquired as part of a business combination.

Intangible assets that are acquired by an entity and having finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets acquired as part of a business combination, with an indefinite useful life are measured at fair value. Intangible assets with indefinite useful lives are not amortised but instead are subject to impairment testing at least annually.

Depreciation and amortisation

Assets are depreciated or amortised on a straight-line basis, so as to write off the book value over their estimated useful lives. The useful lives of property, plant and equipment and intangibles are as follows:

Leasehold improvements	to expiration of the lease
Equipment	4-5 years
Vehicles	4 years
Furniture	10 years
Software	5 years
Intellectual property rights	4 years

(c) Financial assets and liabilities

i. Recognition and initial measurement

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue.

ii. Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest ("SPPI").

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information provided to management.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

3. Significant accounting policies (continued)
(c) Financial assets and liabilities (continued)
Assessment of whether contractual cash flows are solely payments of principal and interest (continued)

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Financial liabilities
The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

iii. Derecognition
Financial assets
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Financial liabilities
The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

iv. Modifications
Financial assets
If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

If the cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. If such modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities
The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. Any costs and fee incurred are recognised as an adjustment of the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

v. Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.
Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3. Significant accounting policies (continued)
(c) Financial assets and liabilities (continued)
vi. Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at the date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

vii. Impairment
The Group recognises loss allowances for expected credit losses ("ECL") on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.

If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.

- An SICR is always deemed to occur when the borrower is 30 days past due on its contractual payments. If the Group becomes aware ahead of this time of non-compliance or financial difficulties of the borrower, such as loss of employment and/or avoiding contact with the Group then an SICR has also deemed to occur.
- A receivable is always deemed to be in default and credit-impaired when the borrower is 90 days past due on its contractual payments or earlier if the Group becomes aware of severe financial difficulties such as bankruptcy, IVA, abscond or disappearance, fraudulent activity and other similar events.

If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Financial instruments in Stage 3 have their ECL measured based on expected credit losses on an undiscounted lifetime basis.

The Group measures loss allowances at an amount equal to lifetime ECL, except for debt investment securities that are determined to have low credit risk at the reporting date for which they are measured as a 12-month ECL. Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of a financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

3. Significant accounting policies (continued)
(c) Financial assets and liabilities (continued)
vii. Impairment (continued)

Measurement of ECL
After a detailed review, the Group devised and implemented an impairment methodology in light of the IFRS 9 requirements outlined above noting the following:

- The ECL was derived by reviewing the Group's loss rate and loss given default over the past 8 years by product and geographical segment.
- The Group has assumed that the future economic conditions will broadly mirror the current environment and therefore the forecasted loss levels in the next 3 years will match the Group's experience in recent years.
- For portfolios where the Group has never had a default in its history or has robust credit enhancements such as credit insurance or default indemnities for the entire portfolio, then no IFRS 9 provision is made.
- If the Group holds objective evidence through specifically assessing a credit-impaired receivable and believes it will go on to completely recover the debt due to the collateral held and cooperation with the borrower, then no IFRS 9 provision is made

ECL are probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable date:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit impaired, the Group considers the following factors:
- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessments of creditworthiness;
- the country's ability to access the capital markets for new debt issuance;
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness;
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets
- loan commitments: generally, as a provision;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off
Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

3. Significant accounting policies (continued)
(c) Financial assets and liabilities (continued)
vii. Impairment (continued)

Write-off (continued)

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(d) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and deposit balances with an original maturity date of three months or less.

(e) Long term employee benefits

Pension obligations

The Group has pension obligations arising from both defined benefit and defined contribution pension plans.

A defined contribution pension plan is one under which the Group pays fixed contributions into a separate fund and has no legal or constructive obligations to pay further contributions. Defined benefit pension plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and remuneration.

Under the defined benefit pension plan, in accordance with IAS 19 Employee benefits, the full service cost for the period, adjusted for any changes to the plan, is charged to the statement of profit or loss and other comprehensive income. A charge equal to the expected increase in the present value of the plan liabilities, as a result of the plan liabilities being one year closer to settlement, and a credit reflecting the long-term expected return on assets based on the market value of the scheme assets at the beginning of the period, is included in the statement of profit or loss and other comprehensive income.

The statement of financial position records as an asset or liability as appropriate, the difference between the market value of the plan assets and the present value of the accrued plan liabilities. The difference between the expected return on assets and that actually achieved in the period, is recognised in the statement of profit or loss and other comprehensive income in the year in which it arises. The defined benefit pension plan obligation is calculated by independent actuaries using the projected unit credit method and a discount rate based on the yield on high quality rated corporate bonds.

The Group's defined contribution pension obligations arise from contributions paid to a Group personal pension plan, an ex-gratia pension plan, employee personal pension plans and employee co-operative insurance plans. For these pension plans, the amounts charged to the statement of profit or loss and other comprehensive income represent the contributions payable during the year.

(f) Leases

Leases in which the Group is a lessor

Finance leases and HP contracts

When assets are subject to a finance lease or HP contract, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. HP and lease income is recognised over the term of the contract or lease reflecting a constant periodic rate of return on the net investment in the contract or lease. Initial direct costs, which may include commissions and legal fees directly attributable to negotiating and arranging the contract or lease, are included in the measurement of the net investment of the contract or lease at inception.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

Leases in which the Group is a lessee

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(g) Current and deferred taxation

Current taxation relates to the estimated corporation tax payable in the current financial year. Deferred taxation is provided in full, using the liability method, on timing differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax is realised. Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3. Significant accounting policies (continued)
(h) Interest income and expense

Interest income and expense are recognised in the statement of profit or loss and other comprehensive income using the effective interest rate method.

Effective interest rate

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts of the financial instrument to the net carrying amount of the financial asset or financial liability. The discount period is the expected life or, where appropriate, a shorter period. The calculation includes all amounts receivable or payable by the Group that are an integral part of the overall return, including origination fees, loan incentives, broker fees payable, estimated early repayment charges, balloon payments and all other premiums and discounts. It also includes direct incremental transaction costs related to the acquisition or issue of the financial instrument. The calculation does not consider future credit losses.

Once a financial asset or a group of similar financial assets has been written down as a result of impairment, subsequent interest income continues to be recognised using the original effective interest rate applied to the reduced carrying value of the financial instrument.

(i) Fees and commission income

Fees and commission income other than that directly related to loans is recognised over the period for which service has been provided or on completion of an act to which the fees relate.

(j) Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services ("business segment"), or in providing products or services within a particular economic environment ("geographical segment"), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

(k) Key sources of estimation uncertainty

Management believe that a key area of estimation and uncertainty is in respect of the impairment allowances on loans and advances to customers, goodwill and the recoverability of the VAT receivable. Loans and advances to customers are evaluated for impairment on a basis described in note 4(a)(i), credit risk. The Group has substantial historical data upon which to base collective estimates for impairment on HP contracts, finance leases, wholesale and personal loans. The accuracy of the impairment allowances depend on how closely the estimated future cash flows mirror actual experience. An impairment review is performed annually for goodwill at different discount rates to allow for any uncertainty. The assessment of the recoverability of the VAT receivable is disclosed in note 18.

(l) Interests in equity accounted investees

The Group's interests in equity accounted investees comprise interests in an associate.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence or joint control ceases.

(m) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

Standards	Effective date (accounting periods commencing on or after)
IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017)	1 January 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017)	1 January 2019
IFRS 16 Leases (issued on 13 January 2016)	1 January 2019

Of those standards that are not yet effective, IFRS 16 is expected to have a material impact on the Group's financial statements in the period of initial application.

3. Significant accounting policies (continued)
(m) Standards issued but not yet effective (continued)

IFRS 16 Leases
The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because the Group has not finalised its assessment.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. These are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Leases in which the Group is a lessor
No impact is expected for leases in which the Group is a lessor.

Leases in which the Group is a lessee
The group will recognise new assets and liabilities for its office premises and car parking sub-leases. As at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to £408,000 (2017: £459,000) on an undiscounted basis (see note 28).

Transition
The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(n) Terminal funding
In September 2014, the Bank discontinued funding handheld payment devices (referred to as Terminal Funding) due to the volume of write offs. Ever since, the book is being run off whilst the Bank vigorously pursues historical write offs. A decision was made by the Board in the prior year to cease funding and wind up the book upon the final repayment date of August 2019.

	2018 £000	2017 £000
Interest income	180	378
Fee and commission expense	(5)	(92)
Provision for impairment on loan assets	(102)	(196)
	73	90

4. Risk and capital management
(a) Risk management
Introduction and overview
The Bank has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- operational risk; and
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

4. Risk and capital management (continued)
(a) Risk management (continued)

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Board has established the Risk Management Committee (the "RMCO") which reports to the MFG Group Audit, Risk and Compliance Committee (the "ARCC") and is responsible for developing and monitoring Group risk management policies in their specified areas. Operational responsibility for asset and liability management is delegated to Executive Directors and management through the Assets and Liabilities Committee (the "ALCO").

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions. The Group has a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The ARCC is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the ARCC.

i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default, country and sector risk).

The Group is principally exposed to credit risk with regard to loans and advances to customers, comprising HP and finance lease receivables, unsecured personal loans, secured personal loans, block discounting and stocking plan loans. It is also exposed to credit risk with regard to cash balances and trade and other receivables. In addition, the Bank lends via significant introducers into the UK. There was one introducer that individually accounted for more than 15.0% of the Bank's total lending portfolio at the end of 31 December 2018 (2017: one introducer).

Management of credit risk

The Board has delegated responsibility for the management of credit risk to the Credit Committee (the "CC") for loans and ALCO for other assets. The following measures are taken in order to manage the exposure to credit risk:

- explicit credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- a rigorous authorisation structure for the approval and renewal of credit facilities. Each opportunity is researched for viability, legal/regulatory restriction and risk. If recommended, the proposal is submitted to the Board or the CC. The CC reviews lending assessments in excess of individual credit control or executive discretionary limits;
- reviewing and assessing existing credit risk and collateral. The CC assesses all credit exposures in excess of designated limits, as set out in the underwriting manual;
- limiting concentrations of exposure to counterparties, geographies and industries, and defining sector limits and lending caps;
- limiting the term of exposure to minimise interest rate risk;
- ensuring that appropriate records of all sanctioned facilities are maintained;
- ensuring regular account reviews are carried out for all accounts agreed by the CC; and
- ensuring Board approval is obtained on all decisions of the CC above the limits set out in the Group credit risk policy.

4. Risk and capital management (continued)
(a) Risk management (continued)
i) Credit risk (continued)

An analysis of the credit risk on loans and advances to customers is as follows:

	2018				2017
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000	Total £000
Loans and advances at amortised cost					
Grade A	140,202	-	-	140,202	119,025
Grade B	760	5,308	85	6,153	3,090
Grade C	-	1,747	4,078	5,825	3,770
Gross value	140,962	7,055	4,163	152,180	125,885
Allowance for impairment	(125)	(144)	(3,125)	(3,394)	(2,687)
Carrying value	140,837	6,911	1,038	148,786	123,198
Overdue status of loans					
Current	137,703	-	-	137,703	115,919
Overdue < 30 days	2,499	-	-	2,499	3,106
Overdue > 30 days	760	7,055	4,163	11,978	6,860
Neither past due nor impaired	140,962	7,055	4,163	152,180	125,885

[1] Loans are graded A to C depending on the level of risk. Grade C relates to agreements with the highest of risk, Grade B with medium risk and Grade A relates to agreements with the lowest risk.

Collateral

The Group holds collateral in the form of the underlying assets (typically private and commercial vehicles, plant and machinery) as security for HP, finance leases, vehicle stocking plans, block discounting, wholesale funding agreements and secured commercial loan balances, which are sub-categories of loans and advances to customers. In addition, the commission share schemes have an element of capital indemnification. In 2018, 37.9% of loans and advances (2017: 41.7%) fell into this category. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. At the time of granting credit within the sub-categories listed above, the loan balances due are secured over the underlying assets held as collateral (see note 14 for further details).

Concentration of credit risk

Geographical

Lending is restricted to individuals and entities with Isle of Man, UK or Channel Islands addresses.

Segmental

The Group is exposed to credit risk with regard to customer loan accounts, comprising HP and finance lease balances, unsecured personal loans, secured commercial loans, block discounting, wholesale and vehicle stocking plan loans. In addition, the Bank lends via significant introducers into the UK. There was one introducer that accounted for more than 15.0% of the Bank's total lending portfolio at the end of 31 December 2018 (2017: one introducer).

ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial liability obligations as they fall due.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group uses various methods, including forecasting of cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source. Maturity mismatches between lending and funding are managed within internal risk policy limits.

4. Risk and capital management (continued)
(a) Risk management (continued)
ii) Liquidity risk

Minimum liquidity

The Isle of Man Financial Services Authority ("FSA") requires that the Group should be able to meet its obligations for a period of at least six months. In order to meet this requirement, the Group measures and manages its cash flow commitments, and maintains its liquid balances in a diversified portfolio of short-term bank balances, short dated UK Government Treasury Bills and Certificates of Deposit.

Bank balances are only held with financial institutions approved by the Board and which meet the requirements of the FSA.

Measurement of liquidity risk

The key measure used by the Group for managing liquidity risk is the assets and liabilities maturity profile.

The table on the next page shows the Group's financial liabilities classified by their earliest possible contractual maturity, on an undiscounted basis including interest due at the end of the deposit term. Based on historical data, the Group's expected actual cash flow from these items vary from this analysis due to the expected re-investment of maturing customer deposits.

Residual contractual maturities of financial liabilities as at the reporting date (consolidated) (undiscounted)

31 December 2018 Group	Sight to 8 days £000	> 8 days to 1 month £000	>1 month to 3 months £000	>3 months to 6 months £000	>6 months to 1 year £000	>1 year to 3 years £000	>3 years to 5 years £000	>5 years £000	Total £000
Deposits from customers	1,754	5,011	14,397	34,028	35,032	56,643	11,635	-	158,500
Other liabilities	3,609	46	91	-	-	-	-	7,450	11,196
Total liabilities	5,363	5,057	14,488	34,028	35,032	56,643	11,635	7,450	169,696

31 December 2017 Group	Sight to 8 days £000	> 8 days to 1 month £000	>1 month to 3 months £000	>3 months to 6 months £000	>6 months to 1 year £000	>1 year to 3 years £000	>3 years to 5 years £000	> 5 years £000	Total £000
Deposits from customers	2,579	3,136	12,710	24,241	30,207	60,820	12,567	-	146,260
Other liabilities	3,599	-	-	-	-	-	-	6,010	9,609
Total liabilities	6,178	3,136	12,710	24,241	30,207	60,820	12,567	6,010	155,869

Maturity of assets and liabilities as at the reporting date (consolidated)

31 December 2018 Group	Sight to 8 days £000	> 8 days to 1 month £000	>1 month to 3 months £000	>3 months to 6 months £000	>6 months to 1 year £000	>1 year to 3 years £000	>3 years to 5 years £000	>5 years £000	Total £000
Assets									
Cash and cash equivalents	7,154	-	-	-	-	-	-	-	7,154
Debt securities	-	17,995	5,989	-	-	-	6,550	-	30,534
Loans and advances to customers	4,982	1,053	9,778	16,066	35,444	64,457	17,004	2	148,786
Other assets	-	-	-	-	-	-	-	4,449	4,449
Total assets	12,136	19,048	15,767	16,066	35,444	64,457	23,554	4,451	190,923
Liabilities									
Deposits from customers	1,754	5,012	14,397	34,028	35,032	56,643	11,634	-	158,500
Other liabilities	3,558	46	91	-	-	-	-	7,450	11,145
Total liabilities	5,312	5,058	14,488	34,028	35,032	56,643	11,634	7,450	169,645

4. Risk and capital management (continued)
(a) Risk management (continued)
ii) Liquidity risk (continued)

31 December 2017 Group	Sight to 8 days £000	> 8 days to 1 month £000	>1 month to 3 months £000	>3 months to 6 months £000	>6 months to 1 year £000	>1 year to 3 years £000	>3 years to 5 years £000	>5 years £000	Total £000
Assets									
Cash and cash equivalents	9,069	-	-	-	-	-	-	-	9,069
Debt securities	-	1,998	16,983	8,524	-	-	6,767	-	34,272
Loans and advances to customers	3,466	3,654	7,955	10,824	25,887	54,950	16,441	21	123,198
Other assets	-	-	-	-	-	-	-	2,199	2,199
Total assets	12,535	5,652	24,938	19,348	25,887	54,950	23,208	2,220	168,738
Liabilities									
Deposits from customers	2,570	3,105	12,654	24,112	29,716	57,711	12,404	-	142,272
Other liabilities	3,599	-	-	-	-	-	-	6,010	9,609
Total liabilities	6,169	3,105	12,654	24,112	29,716	57,711	12,404	6,010	151,881

iii) Operational risk

Operational risk arises from the potential for inadequate systems including systems' breakdown, errors, poor management, breaches in internal controls, fraud and external events to result in financial loss or reputational damage. Operational risk also occurs when lending through an outsourced partner. The Group manages this risk through appropriate risk controls and loss mitigation actions. These actions include a balance of policies, procedures, internal controls and business continuity arrangements. Operational risk across the Group is analysed and discussed at all Board meetings, with ongoing monitoring of actions arising to address the risks identified.

iv) Market risk

Market risk is the risk that changes in the level of interest rates, changes in the rate of exchange between currencies or changes in the price of securities and other financial contracts including derivatives will have an adverse financial impact. The primary market risk within the Group is interest rate risk exposure. As at 31 December 2018 and 2017, the fair value of the financial instruments as presented in the interest risk table below are considered to be equal to their carrying amounts.

During the year the Group was exposed to market price risk through holding available-for-sale financial instruments, and a financial asset carried at fair value through profit and loss. The only significant exposure relates to the financial asset carried at fair value through profit and loss, which is an equity investment stated at market value. Given the size of this holding, which was £20,000 at 31 December 2018 (2017: £24,000) the potential impact on the results of the Group is relatively small and no sensitivity analysis has been provided for the market price risk.

Interest rate risk

Interest rate risk arises from the difference between the maturity of capital and interest payable on customer deposit accounts, and the maturity of capital and interest receivable on loans and financing. The differing maturities on these products create interest rate risk exposures due to the imperfect matching of different financial assets and liabilities. The risk is managed on a continuous basis by management and reviewed by the Board. The Group monitors interest rate risk on a monthly basis via the ALCO.

The matching of the maturity interest rates of assets and liabilities is fundamental to the management of the Group. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates.

4. Risk and capital management (continued)
(a) Risk management (continued)
iv) Market risk (continued)

Interest risk re-pricing table
The following tables present the interest rate mismatch position between assets and liabilities over the respective maturity dates. The maturity dates are presented on a worst case basis, with assets being recorded at their latest maturity and customer accounts at the earliest:

31 December 2018	Sight to 1 month £000	>1 month to 3 months £000	>3 months to 6 months £000	>6 months to 1 year £000	>1 year to 3 years £000	>3 years to 5 years £000	> 5 years £000	Non-Interest Bearing £000	Total £000
Assets									
Cash and cash equivalents	7,154	-	-	-	-	-	-		7,154
Debt securities	17,995	5,989		-	-	6,550	-		30,534
Loans and advances to customers	6,341	9,757	16,032	35,368	64,319	16,967	2		148,786
Other assets	20	-		-	-	-	-	4,429	4,449
Total assets	31,510	15,746	16,032	35,368	64,319	23,517	2	4,429	190,923
Liabilities and equity									
Deposits from customers	6,766	14,397	34,028	35,032	56,643	11,634	-	-	158,500
Other liabilities	3,097	91	-	-	-	-	7,450	-	10,638
Total capital reserves	-	-	-	-	-	-	-	21,785	21,785
Total liabilities and equity	9,863	14,488	34,028	35,032	56,643	11,634	7,450	21,785	190,923
Interest rate sensitivity gap	21,647	1,258	(17,996)	336	7,676	11,883	(7,448)	(17,356)	-

31 December 2017	Sight to 1 month £000	>1 month to 3 months £000	>3 months to 6 months £000	>6 months to 1 year £000	>1 year to 3 years £000	>3 years to 5 years £000	> 5 years £000	Non-Interest Bearing £000	Total £000
Assets									
Cash and cash equivalents	9,069	-	-	-	-	-	-	-	9,069
Debt securities	1,998	16,983	8,524	-	-	6,767	-	-	34,272
Customer accounts receivable	7,120	7,955	10,824	25,887	54,950	16,441	21	-	123,198
Other assets	-	-	-	-	-	-	-	2,199	2,199
Total assets	18,187	24,938	19,348	25,887	54,950	23,208	21	2,199	168,738
Liabilities									
Customer accounts	5,675	12,654	24,112	29,716	57,711	12,404	-	-	142,272
Other liabilities	3,599	-	-	-	-	-	5,450	560	9,609
Total capital reserves	-	-	-	-	-	-	-	16,857	16,857
Total liabilities and equity	9,274	12,654	24,112	29,716	57,711	12,404	5,450	17,417	168,738
Interest rate sensitivity gap	8,913	12,284	(4,764)	(3,829)	(2,761)	10,804	(5,429)	(15,218)	-

4. Risk and capital management (continued)
(a) Risk management (continued)
iv) Market risk (continued)
Interest risk re-pricing table (continued)

Sensitivity analysis for interest rate risk
The Group monitors the impact of changes in interest rates on the above interest rate mismatch positions using a method consistent with the FSA required reporting standard. The methodology applies weightings to the net interest rate sensitivity gap in order to quantify the impact of an adverse change in interest rates of 2.0% per annum (2017: 2.0%). The following tables set out the estimated total impact of such a change based on the mismatch at the reporting date: -

31 December 2018	Sight to 1 month £000	>1 month to 3 months £000	>3 months to 6 months £000	>6 months to 1 year £000	>1 year to 3 years £000	>3 years to 5 years £000	> 5 years £000	Non-Interest Bearing £000	Total £000
Interest rate sensitivity gap	21,647	1,258	(17,996)	336	7,676	11,883	(7,448)	(17,356)	-
Weighting	0.000	0.003	0.007	0.014	0.027	0.054	0.115	0.000	-
Cumulative	-	4	(126)	5	207	642	(857)	-	(125)

31 December 2017	Sight to 1 month £000	>1 month to 3 months £000	>3 months to 6 months £000	>6 months to 1 year £000	>1 year to 3 years £000	>3 years to 5 years £000	> 5 years £000	Non-Interest Bearing £000	Total £000
Interest rate sensitivity gap	8,913	12,284	(4,764)	(3,829)	(2,761)	10,804	(5,429)	(15,218)	-
Weighting	0.000	0.003	0.007	0.014	0.027	0.054	0.115	0.000	-
Cumulative	-	37	(33)	(54)	(75)	583	(624)	-	(166)

(b) Classification of financial assets and financial liabilities

The following table provides reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2018	Mandatorily at FVTPL	Designated as at FVTPL	FVOCI - Debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
Cash and cash equivalents	-	-	-	-	7,154	7,154
Debt securities	-	-	30,534	-	-	30,534
Trading assets	20	-	-	-	-	20
Loans and advances to customers	-	-	-	-	148,786	148,786
Trade and other receivables	-	-	-	-	1,815	1,815
Amounts due from group undertakings	-	-	-	-	307	307
Total financial assets	20	-	30,534	-	158,062	188,616
Customer accounts	-	-	-	-	158,500	158,500
Creditor and accrued charges	-	-	-	-	1,754	1,754
Block creditors	-	-	-	-	138	138
Amounts due to group undertakings	-	-	-	-	1,208	1,208
Subordinated loans	-	-	-	-	7,450	7,450
Total financial liabilities	-	-	-	-	169,050	169,050

4. Risk and capital management (continued)
(b) Classification of financial assets and financial liabilities (continued)

31 December 2017	Mandatorily at FVTPL	Designated as at FVTPL	FVOCI - Debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
Cash and cash equivalents	-	-	-	-	9,069	9,069
Debt securities	-	-	34,272	-	-	34,272
Trading assets	24	-	-	-	-	24
Loans and advances to customers	-	-	-	-	123,198	123,198
Trade and other receivables	-	-	-	-	1,139	1,139
Amounts due from Group undertakings	-	-	-	-	55	55
Total financial assets	24	-	34,272	-	133,461	167,757
Customer accounts	-	-	-	-	142,272	142,272
Creditor and accrued charges	-	-	-	-	2,807	2,807
Block creditors	-	-	-	-	750	750
Subordinated loans	-	-	-	-	5,450	5,450
Total financial liabilities	-	-	-	-	151,279	151,279

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and liabilities at 1 January 2017.

1 January 2017	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost	5,519	5,519
Trading assets	FVTPL	FVTPL (Mandatory)	70	70
Debt securities	Available-for-sale	FVOCI	23,991	23,991
Debt securities - Certificates of Deposit	Amortised cost	Amortised cost	-	-
Loans and advances to customers	Amortised cost	Amortised cost	115,066	115,066
Trade and other receivables	Loans and receivables	Amortised cost	1,524	1,524
Amounts due from group undertakings	Loans and receivables	Amortised cost	321	321
Total financial assets			146,491	146,491
Customer accounts	Amortised cost	Amortised cost	125,952	125,952
Creditor and accrued charges	Amortised cost	Amortised cost	2,791	2,791
Block creditors	Amortised cost	Amortised cost	-	-
Amounts due to group undertakings	Amortised cost	Amortised cost	150	150
Subordinated loans	Amortised cost	Amortised cost	5,000	5,000
Total financial liabilities			133,893	133,893

In applying IFRS 9 both in the current period and retrospectively in previous periods, there were no reclassifications in the measurement category. As a result, there has been no financial adjustment in transitioning to IFRS 9 with respect to adopting the revised measurement categories.

(c) Capital management

Regulatory capital

The Group considers capital to comprise share capital, reserves and subordinated loans. Capital is deployed by the Board to meet the commercial objectives of the Group, whilst meeting regulatory requirements. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor, depositor and market confidence and to sustain future development of the business. In implementing current capital requirements, in line with Basel III , the FSA has updated it directions requiring the Group to maintain a prescribed ratio of Common Equity Tier 1 capital (CET1), Tier 1 and Total Capital to total risk-weighted assets. This requirement has been adhered to throughout the year. The Group's regulatory capital is analysed into three tiers:

- CET1 capital, which includes ordinary share capital, share premium and retained earnings;
- Tier 1 capital, which is calculated as CET1 capital plus additional Tier 1 capital (AT1). AT1 capital is defined as instruments that are not common equity but are eligible to be included in this tier, such as contingent convertible bonds that absorb losses if regulatory capital falls below levels determined by the regulator; and
- Tier 2 capital, which includes collective impairment allowances up to the level set by the FSA and subordinated loan liabilities.

4. Risk and capital management (continued)
(c) Capital management (continued)
Regulatory capital (continued)

In 2017 the Group's regulatory capital was analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium and retained earnings; and
- Tier 2 capital, which includes collective impairment allowances up to the level set by the FSA, subordinated loan liabilities and unrealised gains on financial instruments carried at fair value.

The Bank's regulatory capital position at 31 December was as follows:

	2018 £000	2017 £000
Tier 1 capital		
Ordinary share capital	9,100	6,700
Retained earnings ^	12,102	10,157
Deduction for goodwill	(448)	(448)
Deduction for intercompany receivables	(307)	(55)
Deduction for intangible assets	(601)	(280)
Total Tier 1 capital	19,836	16,074
Tier 2 capital		
Subordinated loans	7,450	5,450
Collective allowances for impairment (subject to FSA limit)	240	247
Total Tier 2 capital	7,690	5,697
Total regulatory capital	27,526	21,771
Total risk-weighted assets	152,242	124,640
Risk asset ratio		
Tier 1 capital ratio	13.0%	12.9%
Total regulatory capital expressed as a percentage of total risk-weighted assets	18.1%	17.5%

^ Retained earnings used in the risk asset ratio calculation can vary from that shown on the statement of financial position due to the classification of certain items within the calculation as prescribed by the FSA. The main adjustment relates to profit for the year which cannot be recognised as capital until the financial statements have been audited unless an interim period is first verified by an external auditor. Another adjustment is that intercompany receivables are deducted from Tier 1 capital.

(d) Fair value of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument:

Valuation models
The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments;
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

4. Risk and capital management (continued)
(d) Fair value of financial instruments (continued)

Financial instruments measured at fair value - fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

31 December 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment securities				
Government bonds	30,534	-	-	30,534
Equities	20	-	-	20
	30,554	-	-	30,554

31 December 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment securities				
Government bonds	28,740	-	-	28,740
Equities	24	-	-	24
	28,764	-	-	28,764

Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised: -

31 December 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total Fair Values £000	Total Carrying Amount £000
Assets					
Cash and cash equivalents	-	7,154	-	7,154	7,154
Investment in associate	-	66	-	66	66
Loans and advances to customers	-	148,786	-	148,786	148,786
Amounts due from group undertakings	-	307	-	307	307
Trade and other receivables	-	1,943	-	1,943	1,943
	-	158,256	-	158,256	158,256
Liabilities					
Customer accounts	-	158,500	-	158,500	158,500
Amounts due to group undertakings	-	-	-	-	-
Subordinated loan	-	7,450	-	7,450	7,450
Creditors and accruals	-	1,754	-	1,754	1,754
	-	167,704	-	167,704	167,704

31 December 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total Fair Values £000	Total Carrying Amount £000
Assets					
Cash and cash equivalents	-	9,069	-	8,214	8,214
Investment in associate	-	38	-	38	38
Loans and advances to customers	-	123,198	-	123,198	123,198
Amounts due from group undertakings	-	55	-	55	55
Trade and other receivables	-	1,139	-	1,139	1,139
	-	133,499	-	133,499	133,499
Liabilities					
Customer accounts	-	142,272		142,272	142,272
Amounts due to group undertakings	-	-	-	-	-
Subordinated loan	-	5,450	-	5,450	5,450
Creditors and accruals	-	3,557	-	3,557	3,557
	-	151,279	-	151,279	151,279

4. Risk and capital management (continued)
(d) Financial instruments not measured at fair value (continued)

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. Input into the models may include data from third party brokers based on over the counter trading activity, and information obtained from other market participants, which includes observed primary and secondary transactions.

5. Segmental analysis

Segmental information is presented in respect of the Group's business segments. The Board consider that the Group currently operates in one geographic segment, comprising of the Isle of Man, UK and Channel Islands. The primary format, business segments, is based on the Group's management and internal reporting structure. The Board consider that the Group operates in one product orientated segments (2017: one segment): Asset and Personal Finance (including provision of HP contracts, finance leases, personal loans, commercial loans and block discounting).

For the year ended 31 December 2018	Asset and Personal Finance £000
Net interest income	15,149
Operating income	9,485
Provision for impairment	(857)
Profit before tax	2,194
Capital expenditure	1,267
Total assets	190,923
Total liabilities	169,721

For the year ended 31 December 2017	Asset and Personal Finance £000
Net interest income	16,620
Operating income	8,506
Provision for impairment	(585)
Profit before tax	2,232
Capital expenditure	255
Total assets	168,738
Total liabilities	151,881

6. Interest income

	Group		Bank	
	2018 £000	2017 £000	2018 £000	2017 £000
Interest income				
Loans and advances to customers	19,081	19,776	18,881	19,718
Total interest income calculated using the effective interest method	19,081	19,776	18,881	19,718
Other interest income	78	54	78	54
Total interest income	19,159	19,830	18,959	19,772

7. Impairment of loans and advances from customers

The charge in respect of specific allowances for impairment comprises: -

	Group		Bank	
	2018 £000	2017 £000	2018 £000	2017 £000
Specific impairment allowances made	1,142	1,295	1,142	1,266
Reversal of allowances previously made	(410)	(776)	(410)	(776)
Total charge for specific allowances for impairment	732	519	732	490

The charge in respect of collective allowances for impairment comprises:-

	Group		Bank	
	2018 £000	2017 £000	2018 £000	2017 £000
Collective impairment allowances made	153	78	153	78
Release of allowances previously made	(28)	(12)	(28)	(12)
Total charge for collective allowances for impairment	125	66	125	66
Total charge for allowances for impairment	857	585	857	556

8. Profit before taxation

The profit before tax for the year is stated after charging: -

		2018 £000	2017 £000
Directors' fees		42	183
Directors' remuneration		229	286
Directors' pensions		23	28
Directors' performance related pay		70	44
Auditor's remuneration	as Auditor current year	52	64
	non-audit services	54	23
Pension cost defined contribution scheme		17	17
Operating lease rentals for property		175	122

9. Income tax

	Group		Company	
	2018 £000	2017 £000	2018 £000	2017 £000
Current tax expense				
Current year	197	226	197	150
Changes to estimates for prior years	-	12	-	12
	197	238	197	162
Deferred tax expense				
Origination and reversal of temporary differences	46	2	46	2
Utilisation of previously recognised tax losses	-	-	-	-
Changes to estimates for prior years	-	-	-	-
	46	2	46	2
Total tax expense	243	240	243	164

9. Income tax (continued)

Group		2018 £000		2017 £000
Reconciliation of effective tax rate				
Profit before tax on continuing operations		2,194		2,281
Tax using the Bank's domestic tax rate	10.0%	219	10.0%	228
Effect of tax rates in foreign jurisdictions	-	-	1.9%	44
Non deductible expenses	-	-	1.0%	23
Tax exempt income	-	-	(0.9)%	(20)
Timing differences in current year	(1.0%)	(22)	(2.1)%	(49)
Origination and reversal of temporary differences in deferred tax	2.1%	46	0.1%	2
Changes to estimates for prior years	-	-	0.5%	12
Total tax expense	11.1%	243	10.5%	240

Bank		2018 £000		2017 £000
Reconciliation of effective tax rate				
Profit before tax on continuing operations		1,957		1,577
Tax using the Bank's domestic tax rate	10.0%	227	10.0%	158
Effect of tax rates in foreign jurisdictions	-	-	0.0%	-
Non deductible expenses	-	-	1.5%	23
Tax exempt income	-	-	(1.3)%	(20)
Timing differences in current year	(1.3%)	(30)	(0.7)%	(11)
Origination and reversal of temporary differences in deferred tax	2.0%	46	0.1%	2
Changes to estimates for prior years	-	-	0.8%	12
Total tax expense	10.7%	243	10.4%	164

The main rate of corporation tax in the Isle of Man is 0.0% (2017: 0.0%), however the profits of the Group's Isle of Man banking activities are taxed at 10.0% (2017: 10.0%). The profits of the Group's subsidiaries that are subject to UK corporation tax are taxed at a rate of 19.0% (2017: 19.0%). The value of temporary differences has been recognised as a deferred tax liability £88,000 (2017: £42,000).

10. Bank profit

The profit on ordinary activities after taxation of the Bank is £2,024,000 (2017: £1,577,000).

11. Cash and cash equivalents

	Group		Bank	
	2018 £000	2017 £000	2018 £000	2017 £000
Cash at bank and in hand	7,154	9,069	6,909	8,214
	7,154	9,069	6,909	8,214

Cash at bank includes an amount of £561,000 (2017: £63,000) representing receipts which are in the course of transmission.

12. Trading assets

The investment represents shares in a UK quoted Company, elected to be classified as a financial asset at fair value through the profit or loss. The investment is stated at market value and is classified as a level 1 investment in the IFRS 13 fair value hierarchy. The cost of the shares was £471,000. The difference between cost and market value is taken to the statement of profit or loss and other comprehensive income. Dividend income of £355,000 and £24,000 of sale proceeds have been received from this investment since it was made. The investment made a net loss of £4,000 (2017: £21,000) during the year.

13. Debt securities

	Group 2018 £000	Group 2017 £000	Bank 2018 £000	Bank 2017 £000
Financial assets at FVOCI:				
UK Government Treasury Bills	30,534	28,740	30,534	28,740
Financial assets at amortised cost:				
UK Certificates of Deposit	-	5,532	-	5,532
	30,534	34,272	30,534	34,272

UK Government Treasury Bills are stated at fair value and unrealised changes in the fair value are reflected in equity. There were £44,000 of unrealised gains in the year ended 31 December 2018 (2017: unrealised losses of £93,000).

Held to maturity financial instruments represent certificates of deposits held with a UK banking institution with a Fitch credit rating of A (stable). There were £136,000 (2017: £36,000) realised gains and £44,000 unrealised gains (2017: unrealised losses £93,000) during the year.

14. Loans and advances to customers

Group	2018 Gross Amount £000	2018 Impairment Allowance £000	2018 Carrying Value £000	2017 Gross Amount £000	2017 Impairment Allowance £000	2017 Carrying Value £000
HP balances	59,041	(1,415)	57,626	59,909	(1,327)	58,582
Finance lease balances	27,238	(1,552)	25,686	20,088	(1,101)	18,987
Unsecured personal loans	14,805	(382)	14,423	10,521	(255)	10,266
Vehicle stocking plans	1,486	-	1,486	1,613	-	1,613
Wholesale funding arrangements	22,944	-	22,944	5,830	-	5,830
Block discounting	17,315	-	17,315	13,523	-	13,523
Secured commercial loans	2,475	(45)	2,430	1,312	(4)	1,308
Secured personal loans	6,876	-	6,876	13,089	-	13,089
	152,180	(3,394)	148,786	125,885	(2,687)	123,198

Bank	2018 Gross Amount £000	2018 Impairment Allowance £000	2018 Carrying Value £000	2017 Gross Amount £000	2017 Impairment Allowance £000	2017 Carrying Value £000
HP balances	58,626	(1,415)	57,211	59,068	(1,297)	57,771
Finance lease balances	27,156	(1,523)	25,633	20,020	(1,145)	18,875
Unsecured personal loans	14,805	(382)	14,423	10,521	(211)	10,310
Vehicle stocking plans	1,486	-	1,486	1,613	-	1,613
Wholesale funding arrangements	19,244	-	19,244	5,830	-	5,830
Block discounting	17,315	-	17,315	13,523	-	13,523
Secured commercial loans	2,475	(45)	2,430	1,312	(4)	1,308
Secured personal loans	6,877	-	6,877	13,089	-	13,089
	147,984	(3,365)	144,619	124,976	(2,657)	122,319

Collateral is held in the form of underlying assets for HP, finance leases, vehicle stocking plans, block discounting, secured commercial and personal loans and wholesale funding arrangements. An estimate of the fair value of collateral on past due or impaired loans and advances is not disclosed as it would be impractical to do so.

14. Loans and advances to customers (continued)

Specific allowance for impairment	Group 2018 £000	Group 2017 £000	Bank 2018 £000	Bank 2017 £000
Balance at 1 January	2,440	2,099	2,410	2,099
Specific allowance for impairment made	1,291	1,295	1,292	1,265
Release of allowances previously made	(410)	(776)	(410)	(776)
Write-offs	(195)	(178)	(195)	(178)
Balance at 31 December	3,126	2,440	3,097	2,410

Collective allowance for impairment	Group 2018 £000	Group 2017 £000	Bank 2018 £000	Bank 2017 £000
Balance at 1 January	247	57	247	57
Collective allowance for impairment made	49	202	49	202
Release of allowances previously made	(28)	(12)	(28)	(12)
Balance at 31 December	268	247	268	247
Total allowances for impairment	3,394	2,687	3,365	2,657

Advances on preferential terms are available to all Executive Directors, management and staff. As at 31 December 2018, £389,005 (2017: £347,328) had been lent on this basis. In the Group's ordinary course of business, advances may be made to MFG Shareholders but all such advances are made on normal commercial terms.

As detailed below, at the end of the current financial year 13 loan exposures exceeded 10.0% of the capital base of the Bank and Group, (2017: 3 loan exposures):

Exposure	Outstanding Balance 2018 £000	Outstanding Balance 2017 £000	Facility Limit 2018 £000
Block discounting facility	17,309	9,487	29,000

HP and finance lease receivables
Loans and advances to customers include the following HP and finance lease receivables:

	Group 2018 £000	Group 2017 £000	Bank 2018 £000	Bank 2017 £000
Less than one year	42,384	36,227	35,811	35,815
Between one and five years	59,744	60,576	50,477	59,888
Gross investment in HP and finance lease receivables	102,128	96,803	86,288	95,703

The investment in HP and finance lease receivables net of unearned income comprises:

	Group 2018 £000	Group 2017 £000	Bank 2018 £000	Bank 2017 £000
Less than one year	37,380	29,317	37,164	28,984
Between one and five years	48,897	50,680	48,616	50,104
Net investment in HP and finance lease receivables	86,277	79,997	85,780	79,088

15. Goodwill

	Group		Bank	
	2018 £000	2017 £000	2018 £000	2017 £000
Acquisition of ECF Asset Finance PLC loan book	348	348	348	348
Acquisition adjustment ECF	211	211	211	211
Impairment ECF	(111)	(111)	(111)	(111)
	448	448	448	448

Goodwill impairment
The goodwill is considered to have an indefinite life and is reviewed on an annual basis by comparing its estimated recoverable amount with its carrying value.

The estimated recoverable amount in relation to the goodwill generated on the purchase of ECF Asset Finance PLC is based on forecast 3 year sales interest income (calculated at 2.0% margin), extrapolated to 10 years using a 2.0% annual increment, and then discounted using a 12.0% discount factor (2017: 12.0% discount factor). The sensitivity of the analysis was tested using additional discount factors of 15.0% and 20.0% on varying sales volumes. On the basis of the above reviews no impairment to goodwill has been made in the current year (2017: none).

16. Property, plant and equipment

Group	Leasehold Improvements £000	IT Equipment £000	Furniture & Equipment £000	Vehicles £000	Total £000
Cost					
As at 1 January 2018	189	976	176	9	1,350
Additions	50	41	17	988	1,096
Disposals	-	-	-	-	-
As at 31 December 2018	239	1,017	193	997	2,446
Accumulated depreciation					
As at 1 January 2018	97	878	158	2	1,135
Charge for the year	22	43	9	45	119
Eliminated on disposals	-	-	-	-	-
As at 31 December 2018	119	921	167	47	1,254
Carrying value at 31 December 2018	120	96	26	950	1,192
Carrying value at 31 December 2017	92	98	18	7	215

17. Intangible assets

Group and Bank	Intellectual property rights £000	IT Software £000	Total £000
Cost			
As at 1 January 2018	43	651	694
Additions	-	493	493
Disposals	-	-	-
As at 31 December 2018	43	1,144	1,187
Accumulated amortisation			
As at 1 January 2018	6	408	414
Charge for year	-	172	172
Impairment	-	-	-
Disposals	-	-	-
As at 31 December 2018	6	580	586
Carrying value at 31 December 2018	37	564	601
Carrying value at 31 December 2017	37	243	280

18. Investment in and loans to and from group undertakings

The Bank has the following investments: -

Name	Nature of business	31 December 2018 Holding %	Date & place of incorporation	Cost of investment 2018 £	Cost of investment 2017 £
Commercial Finance Limited	Dormant	100.0	2.4.1969#	10,000	10,000
Conister Finance & Leasing Ltd	Consumer credit finance	100.0	26.2.1996#	1	1
Waltons Finance Limited	Dormant	100.0	26.2.1996#	1	1
Manx Financial Limited	Asset finance	100.0	10.12.1999#	1,001,000	1,001,000
Conister Legal Management Services Limited	Litigation finance	100.0	13.2.2004#	1	1
Transbank Limited	Dormant	100.0	31.1.2006#	1	1
The Business Lending Exchange Limited	Financial leasing	40.0	28.11.2006^	-	-
Transbank Card Services Limited	Dormant	100.0	12.6.2007^	1	1
Total investment at cost				1,011,005	1,011,005

\# Incorporated within the Isle of Man.
^ Incorporated within the United Kingdom.

On 13 July 2017, 100.0% of the share capital of Manx Financial Limited was acquired for £1,001,000 from Bradburn Limited, a Company under common control. As this was a common control transaction, an accounting policy choice has been made to use book value accounting to recognise the acquisition of the subsidiary. The subsidiary is, therefore, being held at the same cost value as it was held in the transferor's financial statements, with no gain or loss to the Bank or transferor. Further to this, an intercompany balance of £216,000 due to Bradburn Limited was written off, resulting in a gain on write off of £216,000.

Investment in associate

	Group 2018 £000	Group 2017 £000
The Business Lending Exchange ("BLX")	56	38
Beer Swaps Limited ("BSL")	10	-
	66	38

On 15 December 2017, 40.0% of the share capital of The Business Lending Exchange Limited ("BLX") was acquired for nil consideration. As at the date of acquisition the net assets of BLX were £94,000. The Group's share of total comprehensive income for the year is equal to £18,000.

On April 2018, 20% of the share capital of Beer Swaps Limited ("BSL") for nil consideration. The Group's share of the associates total comprehensive income post acquisition and up to year-end is £10,000.

Amounts due from and to Group companies comprise loans which are unsecured, interest-free and repayable on demand.

In the current year, an impairment of £105,000 (2017: £149,000) was made against all intercompany balances receivable following a review of their recoverability.

19. Trade and other receivables

	Group		Bank	
	2018 £000	2017 £000	2018 £000	2017 £000
Prepayments and other debtors	879	268	790	268
Depositors Compensation Scheme Receivable	-	54	-	54
VAT Recoverable	936	817	990	816
	1,815	1,139	1,780	1,138

19. Trade and other receivables (continued)

Included in trade and other receivables is an amount of £936,000 (2017: £817,000) relating to a reclaim of VAT. The Bank, as the Group VAT registered entity, has for some time considered the VAT recovery rate being obtained by the business was neither fair nor reasonable, specifically regarding the attribution of part of the residual input tax relating to the HP business not being considered as a taxable supply. Queries have been raised with the Isle of Man Government Customs & Excise Division ("C&E"), and several reviews of the mechanics of the recovery process were undertaken by the Company's professional advisors.
The decision of the First-Tier Tax Tribunal released 18 August 2011 in respect of Volkswagen Financial Services (UK) Limited ("VWFS") v HM Revenue & Customs (TC01401) ("VWFS Decision") added significant weight to the case put by the Bank and a request for a revised Partial Exemption Special Method was submitted in December 2011. The proposal put forward by the Bank was that the revised method would allocate 50.0% of costs in respect of HP transactions to a taxable supply and 50.0% to an exempt supply. In addition, a Voluntary Disclosure was made as a retrospective claim for input VAT under-claimed in the last 4 years. A secondary claim was also made to cover periods Q4 2012 to Q1 2016 for the value of £230,000 and an amount of £249,000 has been accrued to cover periods Q2 2016 to Q4 2018.

In November 2012, it was announced that the HMRC Upper Tribunal had overturned the First-Tier Tribunal in relation to the VWFS Decision. VWFS has subsequently been given leave to appeal and this was scheduled to be heard in October 2013. However, this was delayed and the case was heard by the Court of Appeal on 17 April 2015 who overturned the Upper Tribunal's decision ruling in favour of VWFS. HMRC have appealed this decision to the Supreme Court, which has referred the issue to the European Court of Justice.

The Court of Justice of the European Union ("CJEU") has published its determination concerning the Volkswagen Financial Services (UK) Limited ("VWFS") vs HMRC case. The judgement addressed all specific questions referred and agreed with VWFS on all material points. Specifically, the judgment clarifies that a partial exemption method must reflect the taxable sale of the goods, even where general costs are commercially passed on as part of the exempt supplies of credit. We have approached Customs and Excise with a view of commencing conversations to finalise our historic claims, rolling up the claim to date and agreeing a new partial exempt method going forward.

The Bank's total exposure in relation to this matter increased to £1,049,000, comprising the debtor balance referred to above plus an additional £113,000 VAT reclaimed under the partial Exemption Special Method, in the period from Q4 2011 to Q3 2012 (from Q4 2012 the Bank reverted back to the previous method). On the basis of the discussions and correspondence which have taken place between the Bank and C&E, in addition to the VWFS case, the Directors are confident that the VAT claim referred to above will be secured.

20. Deposits from customers

Group and Bank	2018 £000	2017 £000
Retail customers	151,651	137,399
Corporate customers	6,849	4,873
	158,500	142,272

21. Creditors and accrued charges

	Group		Bank	
	2018 £000	2017 £000	2018 £000	2017 £000
Commission creditors	758	2,042	758	2,042
Other creditors and accruals	996	765	960	624
	1,754	2,807	1,718	2,666

22. Block creditors

Block creditors consist of the following loans:

Group	2018 £000	2017 £000
Drawdown 2 - repayable 25/07/2018, interest payable at 5.8%, secured on assets of MFL	-	95
Drawdown 3 - repayable 08/03/2019, interest payable at 6.5%, secured on assets of MFL	138	655
	138	750

23. Pension liability

The Conister Trust Pension and Life Assurance Scheme ("the Scheme") operated by the Bank is a funded defined benefit arrangement which provides retirement benefits based on final pensionable salary. The Scheme is closed to new entrants and the last active member of the Scheme left pensionable service in 2011.

The Scheme is approved in the Isle of Man by the Assessor of Income Tax under the Income Tax (Retirement Benefit Schemes) Act 1978 and must comply with the relevant legislation. In addition, it is registered as an authorised scheme with the FSA in the Isle of Man under the Retirement Benefits Scheme Act 2000. The Scheme is subject to regulation by the FSA but there is no minimum funding regime in the Isle of Man.

The Scheme is governed by two corporate trustees, Conister Bank Limited and Boal & Co (Pensions) Limited. The trustees are responsible for the Scheme's investment policy and for the exercise of discretionary powers in respect of the Scheme's benefits.

The rules of the Scheme state: "*Each Employer shall pay such sums in each Scheme Year as are estimated to be required to provide the benefits of the Scheme in respect of the Members in its employ*".

Exposure to risk

The Bank is exposed to the risk that additional contributions will be required in order to fund the Scheme as a result of poor experience. Some of the key factors that could lead to shortfalls are: -

- investment performance - the return achieved on the Scheme's assets may be lower than expected; and
- mortality - members could live longer than foreseen. This would mean that benefits are paid for longer than expected, increasing the value of the related liabilities.

In order to assess the sensitivity of the Scheme's pension liability to these risks, sensitivity analyses have been carried out. Each sensitivity analysis is based on changing one of the assumptions used in the calculations, with no change in the other assumptions. The same method has been applied as was used to calculate the original pension liability and the results are presented in comparison to that liability. It should be noted that in practice it is unlikely that one assumption will change without a movement in the other assumptions; there may also be some correlation between some of these assumptions. It should also be noted that the value placed on the liabilities does not change on a straight line basis when one of the assumptions is changed. For example, a 2.0% change in an assumption will not necessarily produce twice the effect on the liabilities of a 1.0% change.

No changes have been made to the method or to the assumptions stress-tested for these sensitivity analyses compared to the previous period. The investment strategy of the Scheme has been set with regard to the liability profile of the Scheme. However, there are no explicit asset-liability matching strategies in place.

Restriction of assets

No adjustments have been made to the balance sheet items as a result of the requirements of IFRIC 14 issued by International Accounting Standards Board's International Financial Reporting Interpretations Committee.

Scheme amendments

There have not been any past service costs or settlements in the financial year ending 31 December 2018 (2017: none).

Funding policy

The funding method employed to calculate the value of previously accrued benefits is the Projected Unit Method. Following the cessation of accrual of benefits when the last active member left service in 2011, regular future service contributions to the Scheme are no longer required. However, additional contributions will still be required to cover any shortfalls that might arise following each funding valuation.

The most recent full actuarial valuation was carried out at 1 April 2016, which showed that the market value of the Scheme's assets was £1,379,000 representing 80.7% of the benefits that had accrued to members, after allowing for expected future increases in earnings. As required by IAS 19 this valuation has been updated by the actuary as at 31 December 2018.

The amounts recognised in the consolidated statement of financial position are as follows:

Total underfunding in funded plans recognised as a liability	2018 £000	2017 £000
Fair value of plan assets	1,361	1,469
Present value of funded obligations	(1,944)	(2,029)
	(583)	(560)

23. Pension liability (continued)

Movement in the liability for defined benefit obligations	2018 £000	2017 £000
Opening defined benefit obligations at 1 January	2,029	2,034
Benefits paid by the plan	(66)	(68)
Interest on obligations	52	54
Actuarial (gain)/loss	(71)	9
Liability for defined benefit obligations at 31 December	1,944	2,029

Movement in plan assets	2018 £000	2017 £000
Opening fair value of plan assets at 1 January	1,469	1,420
Expected return on assets	37	37
Contribution by employer	41	41
Actuarial (loss)/gain	(121)	39
Benefits paid	(65)	(68)
Closing fair value of plan assets at 31 December	1,361	1,469

Expense recognised in statement of profit or loss and other comprehensive income	2018 £000	2017 £000
Interest on obligation	52	54
Interest on plan assets	(37)	(37)
Total included in personnel costs	15	17
Actual return on plan assets	(53)	76

Actuarial (loss)/gain recognised in statement of other comprehensive income	2018 £000	2017 £000
Actuarial (loss)/gain on plan assets	(121)	39
Actuarial gain/(loss) on defined benefit obligations	71	(9)
	(50)	30

Plan assets consist of the following	2018 %	2017 %
Equity securities	45	48
Corporate bonds	19	18
Government bonds	28	25
Cash	4	5
Other	4	4
	100	100

The actuarial assumptions used to calculate scheme liabilities under IAS 19 are as follows:

	2018 %	2017 %	2016 %
Rate of increase in pension in payment:			
- service up to 5 April 1997	-	-	-
- service from 6 April 1997 to 13 September 2005	3.0	3.0	3.1
- service from 14 September 2005	2.1	2.1	2.1
Rate of increase in deferred pensions	5.0	5.0	5.0
Discount rate applied to scheme liabilities	2.6	2.6	2.7
Inflation	3.1	3.1	3.2

The assumptions used by the actuary are best estimates chosen from a range of possible assumptions, which due to the timescale covered, may not necessarily be borne out in practice.

24. Called up share capital

Authorised: Ordinary shares of 25p each	Number	£000
As at 31 December 2018	52,000,000	13,000
As at 31 December 2017	52,000,000	13,000

Issued and fully paid: Ordinary shares of 25p each	Number	£000
As at 31 December 2018	36,400,000	9,100
As at 31 December 2017	26,800,000	6,700

25. Analysis of changes in financing during the year

	Group		Bank	
	2018 £000	2017 £000	2018 £000	2017 £000
Opening balance	12,900	10,000	12,150	10,000
Issue of shares	2,400	1,700	2,400	1,700
Issue of subordinated loans	2,000	450	2,000	450
Debt acquired from acquisition of subsidiary	138	750	-	-
Closing balance	17,438	12,900	16,550	12,150

The closing balance is represented by £9,100,000 share capital (2017: £6,700,000), £7,450,000 subordinated loans (2017: £5,450,000) and, for the Group only, £ 138,000 of block creditors (2017: £750,000).

26. Regulator

The Group is licensed to undertake banking activities by the FSA. In addition the Group is regulated by the Financial Conduct Authority in the United Kingdom for credit and brokerage related activities

27. Related party transactions

Cash deposits
During the year, the Bank held cash on deposit on behalf of Jim Mellon (Executive Chairman of MFG) and companies related to Jim Mellon and Denham Eke (Chief Executive Officer of MFG). Total deposits amounted to £173,157 (2017: £40,000), at normal commercial interest rates in accordance with the standard rates offered by the Bank.

Staff and commercial loans
Details of staff loans are given in note 14 to the Financial Statements.

Normal commercial loans have been made to various companies connected to Jim Mellon and Denham Eke. As at 31 December 2018, £113,328 of capital and interest was outstanding (2017: £299,000).

Intercompany recharges
Various intercompany recharges are made during the course of the year as a result of the Bank settling debts in other group companies. Edgewater Associates Limited ("EWA") provides services to Manx Financial Group plc in arranging its insurance and defined contribution pension arrangements.

Loan advance to EWA
On 14 December 2016, a loan advance was made to EWA, a Company under common control, by the Bank. The advance was for £700,000 at an interest rate of 8% repayable over 6 years. A negative pledge was given by EWA to not encumber any property or assets or enter into an arrangement to borrow any further monies. The balance as at 31 December 2018 was £508,000 (2017: £604,000).

Loan advance to BLX
On 11 October 2017, a £4,000,000 loan facility was made available to BLX by the Bank in order to provide the finance required to expand its operations. The facility is for 12 months, followed by a 3 year amortisation period. Interest is charged at commercial rates. At 31 December 2018, £550,000 has been advanced to BLX.

Loan advance to BSL
On 27 April 2018, a £1,000,000 loan facility was made available to BSL by the Bank in order to provide the finance required to expand its operations. On 10 October 2018, this facility was increased to £1,500,000. The facility is for 12 months. Interest is charged at commercial rates. At 31 December 2018, £1,099,000 (2017: £nil) has been advanced to BSL.

27. Related party transactions (continued)

Investments

The Bank holds less than 1.0% equity in the share capital of an investment of which Jim Mellon is a shareholder (note 12). Denham Eke acts as co-chairman.

Subordinated loans

Creation	Maturity	Interest rate	2018 £000	2017 £000
11 February 2014	11 February 2024	7.0%	500	500
27 May 2014	27 May 2024	7.0%	500	500
9 July 2014	9 July 2024	7.0%	500	500
17 September 2014	17 September 2026	7.0%	400	400
22 July 2013	22 July 2033	7.0%	1,000	1,000
25 October 2013	25 October 2033	7.0%	1,000	1,000
23 September 2016	23 September 2036	7.0%	1,100	1,100
14 June 2017	14 June 2037	7.0%	450	450
12 June 2018	12 June 2038	7.0%	2,000	-
			7,450	5,450

In total, MFG has issued nine subordinated loans to the Bank. All loans are subject to 7.0% interest payable per annum.

Key management personnel remuneration including Executive Directors

	2018 £000	2017 £000
Short-term employee benefits	292	330

28. Operating leases

Non-cancellable operating lease rentals are payable in respect of property as follows: -

	2018 £000	2017 £000
Less than one year	159	123
Between one and five years	249	336
Over five years	-	-
Total operating lease rentals payable	408	459

29. Subsequent events

There were no significant subsequent events that occurred after the year ended 31 December 2018.

30. Reconciliation of the primary statements from IAS 39 to IFRS 9

As a result of the change to the Group's accounting policy in regards to credit-impairments, it has restated the previous periods in accordance with IFRS 9. A reconciliation of the primary statements is as follows:

Consolidated Income Statement

	Impact of adopting IFRS 9 at 31 Dec 2017 £000
Profit for the year	2,042
Increase to provision for impairment on loan assets	(50)
Restated profit for the year	1,992

Consolidated Statement of Other Comprehensive Income

	Impact of adopting IFRS 9 at 31 Dec 2017 £000
Total comprehensive income for the year attributable to owners	1,979
Increase to provision for impairment on loan assets	(50)
Restated total comprehensive income for the year attributable to owners	1,929

Consolidated Statement of Financial Position

	Impact of adopting IFRS 9 at 31 Dec 2017 £000	Impact of adopting IFRS 9 at 31 Dec 2016 £000
Assets		
Loans and advances to customers	123,372	115,190
Increase to provision for impairment on loan assets	(174)	(124)
Restated loans and advances to customers	123,198	115,066
Equity		
Profit and loss account	10,331	7,957
Increase to provision for impairment on loan assets	(174)	(124)
Restated profit and loss account	10,157	(7,833)

Consolidated Statement of Cash Flows

Total cash flows from operating, investing and financing activities remains unchanged due to the increase in impairments on loan assets being a non-cash item.

Consolidated Statement of Changes in Equity

For an analysis of the retrospective impact of IFRS 9, see page 13 which analyses in each year the effect of adopting IFRS 9 for that year.