Conister Bank Limited

Directors' report and financial statements
For the year ended 31 December 2017

Contents

Directors

David Gibson (70)* ≠
Non-executive Chairman

Alan Clarke (67)*
Non-executive Director

Denham Eke (66)
Non-executive Director

Douglas Grant (53)
Managing Director

Trevor Kirk (49)
Non-executive Director

Ian Morley (66) ≠
Non-executive Director

James Smeed (33)
Finance Director

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

Company Secretary

Lesley Crossley

Registered Office

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Douglas
Isle of Man IM1 2LN

Advisers

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

Legal Advisers
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Isle of Man IM1 1LD

Principal Bankers
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135 Bishopsgate
London EC2M 3UR

Consulting Actuaries
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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 2017.

Principal activities

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

The Company holds a class 1 deposit taking licence under section 7 of the Isle of Man Financial Services Act 2008. Deposits made with the Company 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 (2016: £nil). The proposed transfers to and from reserves are as set out in the statement of changes in equity on page 11.

Share capital

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

Significant shareholdings

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

Directors

Details of current Directors are set out on page 1. James Smeed was appointed to the Board on 12 May 2017. Juan Kelly resigned on 28 March 2017 and Neil Duggan retired on 30 June 2017.

Directors' liability insurance

The Company 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 17 to the financial statements.

Staff

At 31 December 2017 there were 56 members of staff, 7 of whom were part-time (2016: 47 members of staff, 4 of whom were part-time).

Investments in subsidiaries

Investments in the Company's subsidiaries are disclosed in note 19 to the financial statements.

Auditor

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

By order of the Board

L. A. Crossley

Lesley Crossley
Company Secretary
15 March 2018

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

The Company 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 Company follows to the extent which is appropriate to its nature and scale of operations. This report outlines the approach taken by the Company 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 Company 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 Company to meet its objectives and that business and management performances are reviewed. Furthermore, the Board ensures that the Company 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 Company'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 Company.

The Composition of the Board

At the year end, the Board comprised five 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 Company's, business model and strategy. The responsibilities of the Directors in relation to the preparation of the Company'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 Company is operating specifically in accordance with the risk appetite parameters determined and approved by the Board and to ensure that the outcomes for the Company's various activities are in line with those parameters.

The system of internal control overall is designed to enable the Company 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 Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company 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 Parent Company'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 Company 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company 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 Company 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 "Company") for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated Statement of Cash Flows and the Consolidated and the Parent Company Changes in Equity 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 Parent Company's affairs as at 31 December 2017 and of the Group'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 20 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 £930,000, comprising a debtor balance of £817,000 in respect of retrospective VAT and an amount of £113,000 reclaimed under the revised method. As detailed in note 20, 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"), which in turn will take into account the final resolution of the dispute between Volkswagen Financial Services (UK) Limited v HM Revenue & Custom ("the VWFS case"). Due to the inherent uncertainty associated with the final resolution of the VWFS case and its impact on discussions with C&E, 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

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The Directors are responsible for the other information, which comprises the Directors' Report and the Corporate Governance Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, 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;
- in our opinion the information given in the Directors' Report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Acts 1931 to 2004.

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 Parent Company and proper returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the 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 Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company 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.

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

This report is made solely to the Company'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 Company'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 Company and the Company'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
15 March 2018

For the year ended 31 December	Note	2017 £000	2016 £000
Interest income	6	19,830	19,117
Interest expense		(3,210)	(3,268)
Net interest income		16,620	15,849
Fee and commission expense		(8,407)	(9,058)
Net trading income		8,213	6,791
Other operating income		188	304
Terminal funding	3(q)	90	(154)
Operating income		8,491	6,941
Personnel expenses		(3,180)	(2,845)
Other expenses		(2,498)	(2,350)
Provision for impairment on loan assets	7	(535)	(354)
Loss on financial assets carried at fair value	12	(21)	(6)
Realised gains on available for sale financial instruments	13	36	71
Depreciation	17	(74)	(184)
Amortisation	18	(107)	-
Change in share of net assets of associate	19	38	-
Gain on write off of intercompany payable	19	216	-
Impairment of intercompany receivables	19	(149)	(728)
VAT recovery	20	65	295
Profit before tax payable	8	2,282	840
Tax payable	9	(240)	(207)
Profit for the year after taxation		2,042	633
Other comprehensive income			
Items that will be reclassified to profit or loss			
Unrealised losses on available for sale financial instruments taken to equity	12	(93)	(8)
Items that will never be reclassified to profit or loss			
Actuarial gains / (losses) on defined benefit pension scheme taken to equity	24	30	(316)
Total comprehensive income for the year attributable to owners		1,979	309

The notes on pages 12 to 36 form part of these financial statements.

The Directors believe that all results derive from continuing activities.

As at 31 December	Note	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Assets					
Cash and cash equivalents	11	9,069	5,519	8,214	5,407
Financial assets at a fair value through profit or loss	12	24	70	24	70
Available for sale financial instruments	13	28,740	23,991	28,740	23,991
Held to maturity financial instruments	14	5,532	-	5,532	-
Loans and advances to customers	15	123,372	115,190	122,493	115,190
Property, plant and equipment	17	215	442	215	423
Intangible assets	18	280	-	280	-
Investment in Group undertakings	19	-	-	1,011	10
Investment in associate	19	38	-	38	-
Amounts due from Group undertakings	19	55	321	15	321
Trade and other receivables	20	1,139	1,524	1,138	1,520
Goodwill	16	448	448	448	448
Total assets		168,912	147,505	168,148	147,380
Liabilities					
Customer accounts	21	142,272	125,952	142,272	125,952
Creditors and accrued charges	22	2,807	2,791	2,666	2,738
Block creditors	23	750	-	-	-
Amounts due to group undertakings	19	-	150	2,549	1,690
Subordinated loans	28	5,450	5,000	5,450	5,000
Pension liability	24	560	614	560	614
Deferred tax liability	9	42	41	42	41
Total liabilities		151,881	134,548	153,539	136,035
Equity					
Called up share capital	25	6,700	5,000	6,700	5,000
Retained earnings		10,331	7,957	7,909	6,345
Total equity		17,031	12,957	14,609	11,345
Total liabilities and equity		168,912	147,505	168,148	147,380

The financial statements were approved by the Board of Directors on 15 March 2018 and signed on their behalf by:

David Gibson

David Gibson	**Douglas Grant**	**James Smeed**
Chairman	Managing Director	Finance Director

The notes on pages 12 to 36 form part of these financial statements.

For the year ended 31 December	Note	2017 £000	2016 £000
RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS			
Profit before tax on continuing activities		2,282	840
Loss on financial asset carried at fair value	12	21	6
Change in share in net assets of associate	19	(38)	-
Depreciation	17	74	184
Amortisation	18	107	-
Actuarial gain / (loss) on defined benefit pension scheme taken to equity	24	30	(316)
(Decrease) / increase in pension liability	24	(54)	280
Impairment of intercompany receivables		149	728
Gain on write off of intercompany payable		(216)	-
Decrease in trade and other debtors		719	23
Decrease in trade and other creditors		(372)	(255)
Net cash inflow from trading activities		2,702	1,490
Increase in loans and advances to customers		(8,182)	(14,601)
Increase in deposit accounts		16,320	19,624
Cash inflow from operating activities		10,840	6,513

CASH FLOW STATEMENT			
Cash flows from operating activities			
Cash inflow from operating activities		10,840	6,513
Taxation paid		-	(36)
Net cash inflow from operating activities		10,840	6,477
Cash flows from investing activities			
Purchase of property, plant and equipment	17	(84)	(67)
Purchase of intangible assets	18	(171)	-
Sale of tangible fixed assets	17	21	-
Purchase of available for sale financial instruments	13	(4,841)	(8,017)
Purchase of held to maturity financial instruments	14	(5,532)	-
Sale of financial assets at fair value through profit or loss	12	24	-
Cash acquired on acquisition of subsidiary	19	393	-
Net cash outflow from investing activities		(10,190)	(8,084)
Cash flows from financing activities			
Receipt of subordinated loans	28	450	1,100
Increase in share capital	25	1,700	-
Increase in block creditors	23	750	-
Net cash inflow from financing activities		2,900	1,100
Increase / (decrease) in cash and cash equivalents		3,550	(507)
Included in cash flows are:			
Interest received - cash amounts		19,407	18,732
Interest paid - cash amounts		(3,106)	(3,163)

The notes on pages 12 to 36 form part of these financial statements.

For the year ended 31 December Group	Share Capital £000	Retained Earnings £000	2017 £000	2016 £000
Balance as at 1 January	5,000	7,957	12,957	12,648
Profit for the year after taxation	-	2,042	2,042	633
Other comprehensive income	-	(63)	(63)	(324)
Acquisition of subsidiary	-	395	395	-
Transactions with owners:				
Shares issued	1,700	-	1,700	-
Dividend to equity holders	-	-	-	-
Balance as at 31 December	6,700	10,331	17,031	12,957

For the year ended 31 December Company	Share Capital £000	Retained Earnings £000	2017 £000	2016 £000
Balance at 1 January	5,000	6,345	11,345	11,462
Profit for the year after taxation	-	1,627	1,627	207
Other comprehensive income	-	(63)	(63)	(324)
Transactions with owners:				
Shares issued	1,700	-	1,700	-
Dividend to equity holders	-	-	-	-
Balance as at 31 December	6,700	7,909	14,609	11,345

The notes on pages 12 to 36 form part of these financial statements.

1. Reporting entity

Conister Bank Limited (the "Bank" or the "Company") is a company incorporated in the Isle of Man. The consolidated financial statements of the Bank for the year ended 31 December 2017 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 financial statements 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 2016 annual report, with the exception of those listed below.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2017:

- *Disclosure initiative (Amendments to IAS 7);*
- *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12); and*
- *Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 12 Disclosures of Interests in Other Entities).*

No significant changes followed the implementation of these standards and amendments.

(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(m).

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

Management have determined the classification of the Group's financial assets into one of the following categories:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money directly to a customer with no intention of trading the receivable. This classification includes advances made to customers under hire purchase ("HP") and finance lease agreements, finance loans, personal loans, block discounting, secured personal loans, stocking plans and wholesale funding agreements.

Loans are recognised when cash is advanced to the borrowers. Loans and receivables are carried at amortised cost using the effective interest rate method with all movements being recognised in the statement of comprehensive income after taking into account provision for impairment losses (see note 3(d)).

Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short term or if so designated by management. The fair value of the financial asset at fair value through profit or loss is based on the quoted bid price at the reporting date.

Available for sale financial instruments

Available for sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Available for sale investments are carried at fair value.

Dividend income is recognised in the statement of comprehensive income when the Group becomes entitled to the dividend. Other fair value changes are recognised directly in equity until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in equity are recognised in the income statement.

Held to maturity financial instruments

Held to maturity investments are non-derivative investments that are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Investments in subsidiary undertakings

Investments in subsidiary undertakings in the Company's statement of financial position are measured at cost less any provision for impairment.

Fair value

The fair value hierarchy is applied to all financial assets. Refer to note 4(c) for further information.

(d) Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. This arises if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset, or group of financial assets, that can be reliably estimated. Impairment losses are recognised in the statement of comprehensive income for the year.

3. Significant accounting policies (continued)
(d) Impairment of financial assets (continued)

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers.

Loans and other receivables are reviewed for impairment where there are repayment arrears and doubt exists regarding recoverability. The impairment allowance is based on the level of arrears together with an assessment of the expected future cash flows, and the value of any underlying collateral after taking into account any irrecoverable interest due. Amounts are written off when it is considered that there is no further prospect of recovery.

Where past experience has indicated that over time, a particular category of financial assets has suffered a trend of impairment losses, a collective impairment allowance is made for expected losses to reflect the continuing historical trend.

(e) 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.

(f) Financial liabilities

Financial liabilities consist of customer deposit accounts, other creditors, subordinated loans, block creditors, intercompany payables and accrued charges. Customer accounts are recognised immediately upon receipt of cash from the customer. Interest payable on customer deposits is provided for using the interest rate prevailing for the type of account.

(g) 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 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 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 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 comprehensive income represent the contributions payable during the year.

(h) Leases

A Group company is the 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.

A Group company is the 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 statement of comprehensive income on a straight-line basis over the period of the lease.

3. Significant accounting policies (continued)

(i) 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.

(j) Interest income and expense

Interest income and expense are recognised in the statement of 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.

(k) 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.

(l) 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.

(m) 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 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 value added tax receivable balance is based on current discussions with the Isle of Man Government Customs and Excise Division and the status of the Volkswagen Financial Services (UK) Limited v HM Revenue & Customs (TC01401) case (see note 20).

(n) Fiduciary deposits

Deposits received on behalf of clients by way of a fiduciary agreement are placed with external parties and are not recognised in the statement of financial position. Income in respect of fiduciary deposit taking is included within other operating income and recognised on an accruals basis.

(o) 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.

3. Significant accounting policies (continued)
(p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not effective for the year, and have not been applied in preparing these consolidated financial statements.

New/revised International Accounting Standards/International Financial Reporting Standards ("IAS"/"IFRS")	Effective date (accounting period commencing on or after)
IFRS 15 Revenue from Contracts with Customers	*1 January 2018*
IFRS 9 Financial Instruments	*1 January 2018*
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	*1 January 2018*
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	*1 January 2018*
Transfers of Investment Property (Amendments to IAS 40)	*1 January 2018*
Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 1 First-time Adoption of IFRSs and IAS 28 Investments in Associates and Joint Ventures)	*1 January 2018*
IFRIC 22 Foreign Currency Transactions and Advance Consideration	*1 January 2018*
IFRS 16 Leases	*1 January 2019*
IFRS 17 Insurance Contracts	*1 January 2021*

The Directors do not expect the adoption of the standards and interpretations to have a material impact on the Group's financial statements in the period of initial application with the exception of IFRS 9 Financial Instruments.

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is finalising its assessment of the potential impact on its consolidated financial statements resulting from the application of IFRS 9. Based on assessments performed to date, it is anticipated that impairment allowances could increase by 10 to 20%. Given the nature of the Group's operations, including its establishment of loss pools for much of its lending, this standard is not expected to have a pervasive impact on the Group's financial statements. However, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in the recognition of losses earlier and an overall increase in the level of impairment allowances.

The impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income, loan receivables, certain loan commitments and financial guarantee contracts. At initial recognition, an allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months ("12-month ECL").

In the event of a significant increase in the credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Financial assets where 12-month ECL is recognised are considered to be Stage 1; financial assets, which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets, for which there is objective evidence of impairment, so are considered to be in default or otherwise credit impaired, are in Stage 3.

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering the increase in ECL.

The assessment of credit risk and estimated ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of the impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population for financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

3. Significant accounting policies (continued)
(q) 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.

	2017 £000	2016 £000
Interest income	378	601
Fee and commission expense	(92)	(166)
Provision for impairment on loan assets	(196)	(589)
	90	(154)

4. Risk and capital management

(a) Risk management
Introduction and overview

The Group 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.

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 Executive Risk Committee (the "ERC") 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 20.0% of the Bank's total lending portfolio at the end of 31 December 2017 (2016: 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;

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

- 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.

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

	2017 £000	2016 £000
Carrying value	123,372	115,190
Individually impaired		
Grade A	-	-
Grade B	-	-
Grade C	3,184	3,010
Gross value	3,184	3,010
Allowance for impairment	(2,440)	(2,099)
Carrying value	744	911
Collective allowance for impairment	(73)	(57)
Past due but not impaired		
Less than 1 month	2,922	2,557
1 month but less than 2 months	1,941	1,314
2 months but less than 3 months	1,012	575
3 months and over	1,296	1,146
Carrying value	7,171	5,592
Neither past due nor impaired	115,530	108,744

Impaired loans

Impaired loans are loans where the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded A to C depending on the level of risk. Grade C relates to agreements with the highest credit risk, Grade B with medium risk and Grade A relates to agreements with the lowest risk.

Past due but not impaired loans

Past due but not impaired loans are loans where the contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security, collateral available and/or the stage of collection of amounts owed to the Group.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss allowance that relates to individually significant exposures, and a collective loan loss allowance, which is established for the Group's assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. The collective loan loss allowance is based on historical experience, the current economic environment and an assessment of its impact on loan collectability. Guidelines regarding specific impairment allowances are laid out in the Debt Recovery Process Manual which is reviewed annually.

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

Write-off policy

The Group writes off a loan balance and any related allowances for impairment losses when management determines that the loans are uncollectable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

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 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, 2017 41.7% of loans and advances (2016: 54.4%) 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 15 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, 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 20% of the Bank's total lending portfolio at the end of 31 December 2017 (2016: 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.

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.

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

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

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
Customer accounts	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

31 December 2016 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
Customer accounts	2,830	4,601	8,257	8,079	35,517	53,280	18,024	-	130,588
Other liabilities	2,982	-	-	-	-	-	-	5,614	8,596
Total liabilities	5,812	4,601	8,257	8,079	35,517	53,280	18,024	5,614	139,184

Maturity of assets and liabilities as at the reporting date

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
Held to maturity financial instruments	-	-	-	5,532	-	-	-	-	5,532
Available for sale financial instruments	-	1,998	16,983	2,992	-	-	6,767	-	28,740
Customer accounts receivable	3,640	3,654	7,955	10,824	25,887	54,950	16,441	21	123,372
Other assets	-	-	-	-	-	-	-	2,199	2,199
Total assets	12,709	5,652	24,938	19,348	25,887	54,950	23,208	2,220	168,912
Liabilities									
Customer accounts	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

31 December 2016 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	5,519	-	-	-	-	-	-	-	5,519
Available for sale financial instruments	-	6,499	6,499	10,993	-	-	-	-	23,991
Customer accounts receivable	4,110	3,046	7,597	9,967	18,546	53,699	17,581	644	115,190
Other assets	-	-	-	-	-	-	-	2,805	2,805
Total assets	9,629	9,545	14,096	20,960	18,546	53,699	17,581	3,449	147,505
Liabilities									
Customer accounts	2,840	4,597	8,235	8,028	34,988	50,931	16,333	-	125,952
Other liabilities	2,982	-	-	-	-	-	-	5,614	8,596
Total liabilities	5,822	4,597	8,235	8,028	34,988	50,931	16,333	5,614	134,548

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

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 2017 and 2016, 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 £24,000 at 31 December 2017 (2016: £70,000) 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.

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 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
Held to maturity financial instruments	-	-	5,532	-	-	-	-	-	5,532
Available for sale financial instruments	1,998	16,983	2,992	-	-	6,767	-	-	28,740
Customer accounts receivable	7,294	7,955	10,824	25,887	54,950	16,441	21	-	123,372
Other assets	-	-	-	-	-	-	-	2,199	2,199
Total assets	18,361	24,938	19,348	25,887	54,950	23,208	21	2,199	168,912
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	-	-	-	-	-	-	-	17,031	17,031
Total liabilities and equity	9,274	12,654	24,112	29,716	57,711	12,404	5,450	17,591	168,912
Interest rate sensitivity gap	9,087	12,284	(4,764)	(3,829)	(2,761)	10,804	(5,429)	(15,392)	-

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

31 December 2016	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	5,519	-	-	-	-	-	-	-	5,519
Available for sale financial instruments	6,499	6,499	10,993	-	-	-	-	-	23,991
Customer accounts receivable	7,156	7,597	9,967	18,546	53,699	17,581	644	-	115,190
Other assets	-	-	-	-	-	-	-	2,805	2,805
Total assets	19,174	14,096	20,960	18,546	53,699	17,581	644	2,805	147,505
Liabilities									
Customer accounts	7,437	8,235	8,028	34,988	50,931	16,333	-	-	125,952
Other liabilities	2,982	-	-	-	-	-	5,000	614	8,596
Total capital reserves	-	-	-	-	-	-	-	12,957	12,957
Total liabilities and equity	10,419	8,235	8,028	34,988	50,931	16,333	5,000	13,571	147,505
Interest rate sensitivity gap	8,755	5,861	12,932	(16,442)	2,768	1,248	(4,356)	(10,766)	-

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 (2016: 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 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	9,087	12,284	(4,764)	(3,829)	(2,761)	10,804	(5,429)	(15,392)	-
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)

31 December 2016	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	8,755	5,861	12,932	(16,442)	2,768	1,248	(4,356)	(10,766)	-
Weighting	0.000	0.003	0.007	0.014	0.027	0.054	0.115	0.000	-
Cumulative	-	18	91	(230)	75	67	(501)	-	(480)

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

In 2016 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 Company's regulatory capital position at 31 December was as follows:

	2017 £000	2016 £000
Tier 1 capital		
Ordinary share capital	6,700	5,000
Retained earnings ^	10,331	7,957
Deduction for goodwill	(448)	(448)
Deduction for intercompany receivables	(55)	(161)
Deduction for intangible assets	(280)	-
Total Tier 1 capital	16,248	12,348
Tier 2 capital		
Subordinated loans	5,450	5,000
Collective allowances for impairment (subject to FSA limit)	73	57
Deduction for intercompany receivables	-	(160)
Total Tier 2 capital	5,523	4,897
Total regulatory capital	21,771	17,245
Total risk-weighted assets	124,640	110,222
Risk asset ratio		
Tier 1 capital ratio	13%	11%
Total regulatory capital expressed as a percentage of total risk-weighted assets	17%	16%

^ 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. In the prior year, the intercompany receivables were deducted equally from both Tier 1 and Tier 2 capital.

(c) 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;

4. Risk and capital management (continued)
(c) Fair value of financial instruments (continued)
Valuation models (continued)

- 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.

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 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

31 December 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment securities				
Government bonds	23,991	-	-	23,991
Equities	70	-	-	70
	24,061	-	-	24,061

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 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	-	9,069	9,069
Held to maturity financial instruments	-	5,532	-	5,532	5,532
Loans and advances to customers	-	123,372	-	123,372	123,372
Amounts due from group undertakings	-	55	-	55	55
Trade and other receivables	-	1,139	-	1,139	1,139
	-	139,167	-	139,167	139,167
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)
(c) Fair value of financial instruments (continued)

31 December 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total Fair Values £000	Total Carrying Amount £000
Assets					
Cash and cash equivalents	-	5,519	-	5,519	5,519
Loans and advances to customers	-	115,190	-	115,190	115,190
Amounts due from group undertakings	-	321	-	321	321
Trade and other receivables	-	1,524	-	1,524	1,524
	-	122,554	-	122,554	122,554
Liabilities					
Customer accounts	-	125,952	-	125,952	125,952
Amounts due to group undertakings	-	150	-	150	150
Subordinated loan	-	5,000	-	5,000	5,000
Creditors and accruals	-	2,791	-	2,791	2,791
	-	133,893	-	133,893	133,893

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 (2015: 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 2017	Asset and Personal Finance £000
Net interest income	16,620
Operating income	8,491
Provision for impairment	(535)
Profit before tax	**2,282**
Capital expenditure	255
Total assets	**168,912**
Total liabilities	**151,881**

For the year ended 31 December 2016	Asset and Personal Finance £000
Net interest income	15,849
Operating income	6,941
Provision for impairment	(354)
Profit before tax	840
Capital expenditure	67
Total assets	147,505
Total liabilities	134,548

6. Interest income

Interest receivable and similar income represents charges and interest on finance and leasing agreements attributable to the year after adjusting for early settlements and interest on bank balances and held to maturity financial instruments.

7. Allowance for impairment

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

	2017 £000	2016 £000
Specific impairment allowances made	1,295	822
Reversal of allowances previously made	(776)	(475)
Total charge for specific allowances for impairment	519	347

The charge in respect of collective allowances for impairment comprises:

	2017 £000	2016 £000
Collective impairment allowances made	28	12
Release of allowances previously made	(12)	(5)
Total charge for collective allowances for impairment	16	7
Total charge for allowances for impairment	535	354

8. Profit before taxation

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

		2017 £000	2016 £000
Directors' fees		183	195
Directors' remuneration		286	304
Directors' pensions		28	30
Directors' performance related pay		44	60
Auditor's remuneration	as Auditor current year	64	62
	non-audit services	23	38
Pension cost defined contribution scheme		17	13
Operating lease rentals for property		122	204

9. Tax payable

	2017 £000	2016 £000
Current tax expense		
Current year	226	114
Changes to estimates for prior years	12	8
	238	122
Deferred tax expense		
Origination and reversal of temporary differences	2	(10)
Utilisation of previously recognised tax losses	-	78
Changes to estimates for prior years	-	17
	2	85
Total tax expense	240	207

9. Tax payable (continued)

		2017 £000		2016 £000
Reconciliation of effective tax rate				
Profit before tax on continuing operations		2,281		840
Tax using the Company's domestic tax rate	10.0%	228	10.0%	84
Effect of tax rates in foreign jurisdictions	1.9%	44	3.3%	28
Non deductible expenses	1.0%	23	11.4%	96
Tax exempt income	(0.9)%	(20)	(1.2)%	(10)
Timing differences in current year	(2.1)%	(49)	(0.8)%	(7)
Origination and reversal of temporary differences in deferred tax	0.1%	2	(1.2)%	(10)
Changes to estimates for prior years	0.5%	12	3.1%	26
Total tax expense	10.5%	240	24.6%	207

The main rate of corporation tax in the Isle of Man is 0.0% (2016: 0.0%), however the profits of the Group's Isle of Man banking activities are taxed at 10.0% (2016: 10.0%). The profits of the Group's subsidiaries that are subject to UK corporation tax are taxed at a rate of 19.0% (2016: 20.0%). The value of timing differences carried forward is £42,000, which has been recognised as a deferred tax liability (2016: £41,000).

10. Company profit

Under Section 3(5)(b)(ii) of the Companies Act 1982 the Company is exempt from the requirement to present its own statement of comprehensive income. The profit on ordinary activities after taxation of the Company is £1,627,000 (2016: £207,000).

11. Cash and cash equivalents

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Cash at bank and in hand	9,069	5,519	8,214	5,407
	9,069	5,519	8,214	5,407

Cash at bank includes an amount of £nil (2016: £63,000) representing receipts which are in the course of transmission.

12. Financial assets at fair value through profit or loss

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 comprehensive income. Dividend income of £350,000 and £24,000 of sale proceeds have been received from this investment since it was made.

13. Available for sale financial instruments

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
UK Government Treasury Bills	28,740	23,991	28,740	23,991
	28,740	23,991	28,740	23,991

UK Government Treasury Bills are stated at fair value and unrealised changes in the fair value are reflected in equity. There were £93,000 of unrealised losses in the year ended 31 December 2017 (2016: £8,000).

14. Held to maturity financial instruments

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
UK Certificates of Deposit	5,532	-	5,532	-
	5,532	-	5,532	-

Held to maturity financial instruments represent certificates of deposits held with a UK banking institution with a Fitch credit rating of A (stable).

15. Loans and advances to customers

	2017			2016		
	Gross Amount	Impairment Allowance	Carrying Value	Gross Amount	Impairment Allowance	Carrying Value
Group	£000	£000	£000	£000	£000	£000
HP balances	59,909	(1,252)	58,657	60,474	(1,309)	59,165
Finance lease balances	20,088	(1,046)	19,042	14,689	(673)	14,016
Unsecured personal loans	10,521	(211)	10,310	7,343	(162)	7,181
Vehicle stocking plans	1,613	-	1,613	1,366	-	1,366
Wholesale funding arrangements	5,830	-	5,830	-	-	-
Block discounting	13,523	-	13,523	13,213	-	13,213
Secured commercial loans	1,312	(4)	1,308	2,257	(12)	2,245
Secured personal loans	13,089	-	13,089	18,004	-	18,004
	125,885	(2,513)	123,372	117,346	(2,156)	115,190

	2017			2016		
	Gross Amount	Impairment Allowance	Carrying Value	Gross Amount	Impairment Allowance	Carrying Value
Company	£000	£000	£000	£000	£000	£000
HP balances	59,068	(1,222)	57,846	60,474	(1,309)	59,165
Finance lease balances	20,020	(1,046)	18,974	14,689	(673)	14,016
Unsecured personal loans	10,521	(211)	10,310	7,343	(162)	7,181
Vehicle stocking plans	1,613	-	1,613	1,366	-	1,366
Wholesale funding arrangements	5,830	-	5,830	-	-	-
Block discounting	13,523	-	13,523	13,213	-	13,213
Secured commercial loans	1,312	(4)	1,308	2,257	(12)	2,245
Secured personal loans	13,089	-	13,089	18,004	-	18,004
	124,976	(2,483)	122,493	117,346	(2,156)	115,190

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.

	Group		Company	
	2017	2016	2017	2016
Specific allowance for impairment	£000	£000	£000	£000
Balance at 1 January	2,099	2,011	2,099	2,011
Specific allowance for impairment made	1,295	823	1,265	823
Release of allowances previously made	(776)	(475)	(776)	(475)
Write-offs	(178)	(260)	(178)	(260)
Balance at 31 December	2,440	2,099	2,410	2,099

15. Loans and advances to customers (continued)

Collective allowance for impairment	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Balance at 1 January	57	50	57	50
Collective allowance for impairment made	28	12	28	12
Release of allowances previously made	(12)	(5)	(12)	(5)
Balance at 31 December	73	57	73	57
Total allowances for impairment	2,513	2,156	2,483	2,156

Advances on preferential terms are available to all Executive Directors, management and staff. As at 31 December 2017, £347,328 (2016: £306,895) 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 three loan exposures exceeded 10.0% of the capital base of the Company and Group, (2016: three loan exposures):

Exposure	Outstanding Balance 2017 £000	Outstanding Balance 2016 £000	Facility Limit 2017 £000
Block discounting facility	9,487	9,302	11,000

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

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Less than one year	36,227	34,468	35,815	34,468
Between one and five years	60,576	59,669	59,888	59,669
Gross investment in HP and finance lease receivables	96,803	94,137	95,703	94,137

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

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Less than one year	29,317	25,726	28,984	25,726
Between one and five years	50,680	49,437	50,104	49,437
Net investment in HP and finance lease receivables	79,997	75,163	79,088	75,163

16. Goodwill

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £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 (2016: 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 (2016: none).

17. Property, plant and equipment

Group	Leasehold Improvements £000	IT Equipment £000	Furniture & Equipment £000	Vehicles £000	Total £000
Cost					
As at 1 January 2017	184	1,439	167	57	1,847
Reclassification[1]	-	(523)	-	-	(523)
Additions	5	60	9	10	84
Disposals	-	-	-	(58)	(58)
As at 31 December 2017	189	976	176	9	1,350
Depreciation					
As at 1 January 2017	77	1,146	150	32	1,405
Reclassification[1]	-	(307)	-	-	(307)
Charge for the year	20	39	8	7	74
Eliminated on disposals	-	-	-	(37)	(37)
As at 31 December 2017	97	878	158	2	1,135
Carrying value at 31 December 2017	92	98	18	7	215
Carrying value at 31 December 2016	107	293	17	25	442

[1]During the year IT software has been reclassified from property, plant and equipment to intangible assets (see note 18) as it is being reported similarly for regulatory purposes.

Fixed assets with a net book value of £nil (2016: £19,000) are held by Conister Finance & Leasing Ltd, which relate to motor vehicles. All other fixed assets are held by the Company.

18. Intangible assets

Group and Company	Intellectual property rights £000	IT Software £000	Total £000
Cost			
As at 1 January 2017	-	-	-
Reclassification[1]	-	523	523
Additions	43	128	171
Disposals	-	-	-
As at 31 December 2017	43	651	694
Accumulated amortisation			
As at 1 January 2017	-	-	-
Reclassification[1]	-	307	307
Charge for year	6	101	107
Impairment	-	-	-
Disposals	-	-	-
As at 31 December 2017	6	408	414
Carrying value at 31 December 2017	37	243	280
Carrying value at 31 December 2016	-	-	-

[1]During the year IT software has been reclassified from property, plant and equipment to intangible assets (see note 17) as it is being reported similarly for regulatory purposes.

19. Investment in and loans to and from group undertakings

The Company has the following investments: -

Name	Nature of business	31 December 2017 Holding %	Date & place of incorporation	Cost of investment 2017 £	Cost of investment 2016 £
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	-
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	10,005

\# 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.

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 resulting share of net assets is equal to £38,000 at that date.

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 £149,000 (2016: £728,000) was made against all intercompany balances receivable following a review of their recoverability.

20. Trade and other receivables

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Prepayments and other debtors	268	718	268	714
Depositors Compensation Scheme Receivable	54	54	54	54
VAT Recoverable	817	752	816	752
	1,139	1,524	1,138	1,520

Included in trade and other receivables is an amount of £817,000 (2016: £752,000) relating to a reclaim of value added tax (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% of costs in respect of HP transactions to a taxable supply and 50% to an exempt supply. In addition at this time 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 Q4 2016 for the value of £230,000 and an amount of £130,000 has been accrued to cover periods Q2 2016 to Q4 2017.

20. Trade and other receivables (continued)

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 Bank's total exposure in relation to this matter is £930,000, 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 claimed referred to above will be secured.

21. Customer accounts

Group and Company	2017 £000	2016 £000
Retail customers	137,399	124,398
Corporate customers	4,873	1,554
	142,272	125,952

Fiduciary deposits
At 31 December 2017 the Bank acted as agent bank to a number of customers, for balances totalling £8,000 (2016: £3,400,000). The Bank invests these customer assets with third party banks on their behalf and in return for this service receives a fee. These balances are not included within the statement of financial position. The remaining fiduciary deposits were closed out during January 2018.

22. Creditors and accrued charges

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Commission creditors	2,042	2,495	2,042	2,495
Other creditors and accruals	765	296	624	243
	2,807	2,791	2,666	2,738

23. Block creditors

Block creditors consist of the following loans:

Group	2017 £000	2016 £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	655	-
	750	-

24. Pension liability

The Conister Trust Pension and Life Assurance Scheme ("the Scheme") operated by the Company 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*".

24. Pension liability (continued)

Exposure to risk
The Company 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 2017 (2016: 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 2017.

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

Total underfunding in funded plans recognised as a liability	2017 £000	2016 £000
Fair value of plan assets	1,469	1,420
Present value of funded obligations	(2,029)	(2,034)
	(560)	(614)

Movement in the liability for defined benefit obligations	2017 £000	2016 £000
Opening defined benefit obligations at 1 January	2,034	1,666
Benefits paid by the plan	(68)	(68)
Interest on obligations	54	64
Actuarial loss	9	372
Liability for defined benefit obligations at 31 December	2,029	2,034

Movement in plan assets	2017 £000	2016 £000
Opening fair value of plan assets at 1 January	1,420	1,332
Expected return on assets	37	51
Contribution by employer	41	49
Actuarial gain	39	56
Benefits paid	(68)	(68)
Closing fair value of plan assets at 31 December	1,469	1,420

24. Pension liability (continued)

Expense recognised in statement of comprehensive income	2017 £000	2016 £000
Interest on obligation	54	64
Interest on plan assets	(37)	(51)
Total included in personnel costs	17	13
Actual return on plan assets	76	107

Actuarial gain / (loss) recognised in statement of other comprehensive income	2017 £000	2016 £000
Actuarial gain on plan assets	39	56
Actuarial loss on defined benefit obligations	(9)	(372)
	30	(316)

Plan assets consist of the following	2017 %	2016 %
Equity securities	48	47
Corporate bonds	18	16
Government bonds	25	25
Cash	5	7
Other	4	5
	100	100

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

	2017 %	2016 %	2015 %
Rate of increase in pension in payment:			
- service up to 5 April 1997	-	-	-
- service from 6 April 1997 to 13 September 2005	3.0	3.1	2.7
- service from 14 September 2005	2.1	2.1	2.0
Rate of increase in deferred pensions	5.0	5.0	5.0
Discount rate applied to scheme liabilities	2.6	2.7	3.9
Inflation	3.1	3.2	2.8

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.

25. Called up share capital

Authorised: Ordinary shares of 25p each	Number	£000
As at 31 December 2017	52,000,000	13,000
As at 31 December 2016	52,000,000	13,000

Issued and fully paid: Ordinary shares of 25p each	Number	£000
As at 31 December 2017	26,800,000	6,700
As at 31 December 2016	20,000,000	5,000

26. Analysis of changes in financing during the year

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Opening balance	10,000	8,900	10,000	8,900
Issue of shares	1,700	-	1,700	-
Issue of subordinated loans	450	1,100	450	1,100
Debt acquired from acquisition of subsidiary	750	-	-	-
Closing balance	12,900	10,000	12,150	10,000

The closing balance is represented by £6,700,000 share capital (2016: £5,000,000), £5,450,000 subordinated loans (2016: £5,000,000) and, for the Group only, £750,000 of block creditors (2016: £nil).

27. 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

28. 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 £40,000 (2016: £76,000), at normal commercial interest rates in accordance with the standard rates offered by the Bank.

Funds held in a fiduciary capacity
Fiduciary deposits
The Bank acts as agent bank to a number of customers, for balances totalling £8,000 (2016: £3,374,000). The Bank invests these customer assets with third party banks on their behalf and in return for this service receives a fee. These balances are not included within the statement of financial position. The remaining fiduciary deposits were closed out during January 2018.

All funds held and accounts maintained in connection with the fiduciary services that the Bank offers in 2017 are to companies connected with Jim Mellon and Denham Eke.

Staff and commercial loans
Details of staff loans are given in note 15 to the Financial Statements.

Normal commercial loans have been made to various companies connected to Jim Mellon and Denham Eke. As at 31 December 2017, £299,000 of capital and interest was outstanding (2016: £401,000).

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 the Group 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 2017 was £604,000 (2016: £700,000).

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 2017, £550,000 had been advanced to BLX.

Investments
The Bank holds less than 1% equity in the share capital of an investment of which Jim Mellon is a shareholder (note 12). Denham Eke acts as co-chairman.

28. Related party transactions (continued)

Subordinated loans

Creation	Maturity	Interest rate	2017 £000	2016 £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	-
			5,450	5,000

In total, MFG has issued eight subordinated loans to the Bank. All loans are subject to 7% interest payable per annum levied at the discretion of the lender.

Key management personnel remuneration including Executive Directors

	2017 £000	2016 £000
Short-term employee benefits	330	364

29. Operating leases

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

	2017 £000	2016 £000
Less than one year	123	123
Between one and five years	336	459
Over five years	-	-
Total operating lease rentals payable	459	582

30. Subsequent events

The remaining fiduciary deposits held were closed out during January 2018 and the Bank no longer has any customers utilising this product offering (note 28).