

Conister Bank Limited

Directors' report and financial statements
For the year ended 31 December 2016

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Directors

Neil Duggan (56)* ≠
Non-executive Chairman

Alan Clarke (66)*
Non-executive Director

Denham Eke (65)
Non-executive Director

David Gibson (69)* ≠
Non-executive Director

Douglas Grant (52)
Managing Director

Trevor Kirk (48)
Non-executive Director

Ian Morley (65) ≠
Non-executive Director

James Smeed (32)
Executive Director

* Member of the Audit, Risk & Compliance Committee

≠ Independent Non-executive Director

Company Secretary

Lesley Crossley

Registered Office

Clarendon House
Victoria Street
Douglas
Isle of Man IM1 2LN

Advisers

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

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

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

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

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

The Directors have pleasure in submitting their annual report and the audited financial statements for the year ended 31 December 2016.

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 (2015: £nil). The proposed transfers to and from reserves are as set out in the Statement of Changes in Equity on page 12.

Share capital

Particulars of the authorised and issued share capital of the Company are set out in note 23 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. Ian Morley was appointed to the Board on 19 February 2016. Juan Kelly resigned on 28 March 2017. James Smeed was appointed by the Board on 29 March 2017, subject to FSA approval.

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 2016 there were 47 members of staff, 4 of whom were part-time (2015: 45 members of staff, 5 of whom were part-time).

Investments in subsidiaries

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

Auditors

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



Lesley Crossley

Company Secretary

26 April 2017

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.

This report illustrates how Manx Financial Group PLC (that is the Company's parent and all its subsidiaries, "MFG Group") and Conister Bank Limited ("the Bank") complies with the principles set out in the UK Corporate Governance Code principles found in the UK Corporate Governance Code 2016 relating to corporate governance.

The Role of the Board

Code Principle A.1: *Every company should be headed by an effective board, which is collectively responsible for the long-term success of the company.*

Conister Bank Limited's Approach

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

There are at least four formal Board meetings each year. All Board members have the benefit, at the Group's expense, of liability insurance in respect of their responsibilities as Directors and have access to independent legal or other professional advice if required. The Board has a formal schedule of matters which are reserved for its consideration. The MFG Group has established three committees to consider specific issues in greater detail for the Group as a whole, being the MFG Group Audit, Risk and Compliance, Remuneration and Nomination Committees. The Terms of Reference for each of these Committees is published on the MFG Group's website (www.mfg.im) and further information is detailed below.

MFG Group Audit, Risk and Compliance Committee

The MFG Group Audit, Risk and Compliance Committee meets at least four times each year and comprises three Non-executive Directors, currently Alan Clarke (Chairman), David Gibson and Neil Duggan. The Executive Directors and representatives from compliance and risk, the internal and external auditors attend 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 Committee 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.

MFG Group Remuneration Committee

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

MFG Group Nomination Committee

The MFG Group Nomination Committee is comprised of the whole Board. It is chaired by the MFG Group's Chairman of the 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

Code Principle A.2: *There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.*

Conister Bank Limited's Approach

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, promoting a culture of openness of debate. The Managing Director is responsible for managing the Bank's business and operations within the parameters set by the Board.

The Chairman

Code Principle A.3: The Chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.

Conister Bank Limited's Approach

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

Code Principle A.4: As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.

Conister Bank Limited's Approach

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

The Composition of the Board

Code Principle B.1: The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

Conister Bank Limited's Approach

At the year end, the Board comprised six Non-executive Directors and two Executive Directors. At least three 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 all 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

Code Principle B.2: There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

Conister Bank Limited's Approach

The principal purpose of the MFG Group 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, including gender. 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

Code Principle B.3: All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

Conister Bank Limited's Approach

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

Development

Code Principle B.4: All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

Conister Bank Limited's Approach

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.

Information and Support

Code Principle B.5: *The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.*

Conister Bank Limited's Approach

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

Code Principle B.6: *The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.*

Conister Bank Limited's Approach

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

Code Principle C.1: *The board should present a fair, balanced and understandable assessment of the company's position and prospects.*

Conister Bank Limited's Approach

The Board confirms that the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for members to assess the Bank's, business model and strategy. The responsibilities of the Directors in relation to the preparation of the Bank's financial statements are set out on page 7. The MFG Chairman's Statement found in the Company's parent annual report on pages 2 and 3 provide a detailed review of the MFG Group's business activities and future prospects.

Risk Management and Internal Control

Code Principle C.2: *The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.*

Conister Bank Limited's Approach

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 MFG Group Audit, Risk and Compliance Committee, on behalf of the Group Boards, are responsible for reviewing the adequacy and effective operation of these processes. The role of the MFG Group Audit, Risk and Compliance Committee is described previously, and provides the Board with independent assurance that the MFG Group is operating specifically in accordance with the risk appetite parameters determined and approved by the Board and to ensure that the outcomes for the MFG Group's various activities are in line with those parameters.

The system of internal control overall is designed to enable the MFG Group 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.

Audit Committee and Auditors

Code Principle C.3: *The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.*

Conister Bank Limited's Approach

Currently, the MFG Group Audit, Risk and Compliance Committee comprises of three Non-executive Directors. The Board is satisfied that the Committee is comprised of members with recent relevant financial experience who are capable of discharging their duties and responsibilities. The role of the Committee is to review 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 Committee 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. The activities of the MFG Group's internal audit function, which is undertaken in-house, are overseen by the Executives and have direct access to the Committee Chairman.

Remuneration

***Code Principle D.1:** Executive directors' remuneration should be designed to promote the long-term success of the Company. Performance-related elements should be transparent, stretching and rigorously applied.*

***Code Principle D.2:** There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.*

Conister Bank Limited's Approach

The Report on Directors' Remuneration, prepared by the Chairman of the MFG Group's Remuneration Committee, is to be found in the Company's parent annual report on pages 10 and 11 and explains how the MFG Group complies with the Code Principles relating to remuneration.

Conister Bank Limited
Statement of Directors' Responsibilities
in respect of the Directors' Report and the financial statements
for the year ended 31 December 2016

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

Company law requires the Directors to prepare financial statements for each financial year, which meet the requirements of Isle of Man company law. In addition, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group for that year.

In preparing these 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 they have been prepared in accordance with International Financial Reporting Standards; and
- * prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that its financial statements comply with the Companies Acts 1931 to 2004. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the Independent Auditors, KPMG Audit LLC, to the Member of Conister Bank Limited

Matters on which we are required to report by exception

We have audited the financial statements of Conister Bank Limited ("the Company") for the year ended 31 December 2016 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 Parent Company Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union ("EU").

We have nothing to report in respect of the following matters where the Companies Acts 1931 to 2004 require us 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's Statement of Financial Position and Statement of Comprehensive Income 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.

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 Parent Company's member those matters we are required to state to it in an Auditors' 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 Parent Company and the Parent Company's member as a body, for our audit work, for this report, or for the opinions we have formed.

Emphasis of Matter – Reclaim of Value Added Tax (VAT)

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the Directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 19 to the financial statements concerning a reclaim of VAT in relation to a revised Partial Exemption Special Method. The Company's total exposure in relation to this matter is £865,000, comprising a debtor balance of £752,000 in respect of retrospective VAT and an amount of £113,000 reclaimed under the revised method in the period from Q4 2011 to Q3 2012.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors and the overall presentation of the financial statements.

As detailed in note 19, the ultimate recovery of the debtor balance and the decision as to whether the VAT already reclaimed will be required to be repaid rests on the outcome of discussions with the Isle of Man Government Customs and Excise Division ("C&E"), which in turn will take into account the final resolution of the dispute between Volkswagen Financial Services (UK) Limited v HM Revenue & Custom ("the WWFS case"). Due to the inherent uncertainty associated with the final resolution of the WWFS 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.

In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



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

Opinion on the financial statements

In our opinion the financial statements:

27 April 2017

- * give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- * have been properly prepared in accordance with IFRS; and
- * have been properly prepared in accordance with the provisions of Companies Acts 1931 to 2004.

Conister Bank Limited
Consolidated Statement of Comprehensive Income

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For the year ended 31 December	Note	2016 £000	(Note 29) 2015 £000
Continuing operations			
Interest income	6	19,117	16,545
Interest expense		<u>(3,268)</u>	<u>(3,002)</u>
Net interest income		15,849	13,543
Fee and commission income		-	-
Fee and commission expense		(1,266)	(783)
Commission sharing schemes	3(p)	<u>(7,792)</u>	<u>(6,196)</u>
Net fee and commission expense		(9,058)	(6,979)
Net trading income		6,791	6,564
Other operating income		304	233
Terminal funding	3(r)	<u>(154)</u>	<u>157</u>
Operating income		6,941	6,954
Provision for impairment of loan assets	7	(354)	(396)
Impairment of intercompany receivables	18	(728)	-
Personnel expenses		(2,845)	(2,602)
Depreciation	17	(184)	(136)
Other expenses		(2,350)	(1,699)
VAT recovery	19	295	-
Depositors' Compensation Scheme recovery	9	-	9
Realised gains on available for sale financial instruments	14	71	80
Unrealised (loss) / gain on financial assets carried at fair value	13	<u>(6)</u>	<u>30</u>
Profit before tax payable		840	2,240
Tax payable	10	<u>(207)</u>	<u>(204)</u>
Profit for the year		633	2,036
Other comprehensive income			
Items that will be reclassified to profit or loss			
Losses on available for sale financial instruments taken to equity		(8)	-
Items that will never be reclassified to profit or loss			
Actuarial (losses) / gains on defined benefit pension scheme taken to equity	22	<u>(316)</u>	<u>19</u>
Total comprehensive income for the year attributable to owners		309	2,055

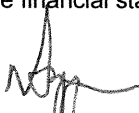
The notes on pages 13 to 37 form part of these financial statements.

Conister Bank Limited
Consolidated and Company Statements of Financial Position


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As at 31 December	Note	Group		Company	
		2016 £000	2015 £000	2016 £000	2015 £000
Assets					
Cash and cash equivalents	12	5,519	6,026	5,407	5,974
Financial assets at a fair value through profit or loss	13	70	77	70	77
Available for sale financial instruments	14	23,991	15,981	23,991	15,981
Loans and advances to customers	15	115,190	100,589	115,190	100,589
Property, plant and equipment	17	442	559	423	528
Investment in group undertakings	18	-	-	10	10
Amounts due from group undertakings	18	321	1,230	321	1,801
Trade and other receivables	19	1,524	1,216	1,520	1,215
Deferred tax asset	10	-	44	-	44
Goodwill	16	448	448	448	448
Total assets		147,505	126,170	147,380	126,667
Liabilities					
Customer accounts	20	125,952	106,328	125,952	106,328
Amounts due to group undertakings	18	150	94	1,690	1,796
Creditors and accrued charges	21	2,791	2,866	2,738	2,847
Deferred tax liability	10	41	-	41	-
Subordinated loan	26	5,000	3,900	5,000	3,900
Pension liability	22	614	334	614	334
Total liabilities		134,548	113,522	136,035	115,205
Equity					
Called up share capital	23	5,000	5,000	5,000	5,000
Retained earnings		7,957	7,648	6,345	6,462
Total equity		12,957	12,648	11,345	11,462
Total liabilities and equity		147,505	126,170	147,380	126,667

The financial statements were approved by the Board of Directors on 26 April 2017 and signed on their behalf by:


Neil Duggan
Chairman


Douglas Grant
Managing Director


James Smeed
Finance Director

The notes on pages 13 to 37 form part of these financial statements.

For the year ended 31 December	Note	2016 £000	2015 £000
RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS			
Profit before tax on continuing activities		840	2,240
Unrealised loss / (gain) on financial asset carried at fair value	13	6	(30)
Gain on disposal of property, plant and equipment		-	(12)
Depreciation	17	184	136
Actuarial (loss) / gain on defined benefit pension scheme taken to equity	22	(316)	19
Increase / (decrease) in pension liability		280	(54)
Impairment of intercompany receivables		728	-
Decrease / (increase) in trade and other debtors		23	(668)
(Decrease) / increase in trade and other creditors		(255)	1,224
Net cash inflow from trading activities		<u>1,490</u>	<u>2,855</u>
Increase in loans and advances to customers		(14,601)	(11,323)
Increase in deposit accounts		<u>19,624</u>	<u>6,069</u>
Cash inflow / (outflow) from operating activities		6,513	(2,399)
STATEMENT OF CASH FLOWS			
Cash flows from operating activities			
Cash inflow / (outflow) from operating activities		6,513	(2,399)
Taxation paid		<u>(36)</u>	<u>(6)</u>
Net cash inflow / (outflow) from operating activities		6,477	(2,405)
Cash flows from investing activities			
Purchase of tangible fixed assets	17	(67)	(174)
Sale of tangible fixed assets		-	12
(Purchase) / sale of available for sale financial instruments		<u>(8,017)</u>	<u>2,794</u>
Net cash (outflow) / inflow from investing activities		(8,084)	2,632
Cash flows from financing activities			
Receipt of subordinated loans	26	<u>1,100</u>	<u>-</u>
Net cash inflow from investing activities		1,100	-
(Decrease) / increase in cash and cash equivalents		<u>(507)</u>	<u>227</u>
Included in cash flows are:			
Interest received – cash amounts		18,732	17,203
Interest paid – cash amounts		<u>(3,163)</u>	<u>(2,906)</u>

The notes on pages 13 to 37 form part of these financial statements.

Conister Bank Limited
 Consolidated and Company Statements of Changes in Equity

For the year ended 31 December Group	Share Capital £000	Retained Earnings £000	2016 £000	2015 £000
Balance as at 1 January	5,000	7,648	12,648	10,593
Profit for the year	-	633	633	2,036
Other comprehensive income	-	(324)	(324)	19
Transactions with owners:				
Dividend to equity holders	-	-	-	-
Balance as at 31 December	5,000	7,957	12,957	12,648

For the year ended 31 December Company	Share Capital £000	Retained Earnings £000	2016 £000	2015 £000
Balance at 1 January	5,000	6,462	11,462	9,502
Profit for the year	-	207	207	1,941
Other comprehensive income	-	(324)	(324)	19
Transactions with owners:				
Dividend to equity holders	-	-	-	-
Balance as at 31 December	5,000	6,345	11,345	11,462

The notes on pages 13 to 37 form part of these financial statements.

1. Reporting entity

Conister Bank Limited is a company domiciled in the Isle of Man. The consolidated financial statements of Conister Bank Limited (referred to hereafter as “the Bank” or “the Company”) for the twelve months ended 31 December 2016 comprise the Bank and its subsidiaries (together referred to as the “Group”).

A summary of the principal accounting policies, which have been applied consistently, is 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, on a going concern basis.

The Group has continued to apply the accounting policies used for the 2015 annual report.

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 2016:

- *IFRS 14 Regulatory Deferral Accounts;*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11);*
- *Investment Entities: Applying the Consideration Exception (Amendments to IFRS 10, 12 and IAS 28);*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38);*
- *Equity Method in Separate Financial Statements (Amendments to IAS 27);*
- *Disclosure Initiative (Amendments to IAS 1); and*
- *Annual Improvements to IFRSs 2012-2014 Cycle – various standards.*

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 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

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 Statement of Financial Position 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.

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.

Depreciation

Assets are depreciated 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:

Equipment	4-5 years
Vehicles	4 years
Furniture	10 years
Leasehold improvements	to expiration of the lease

(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, personal loans and stocking plans.

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 Statement of Financial Position 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 other comprehensive income.

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.

3. Significant accounting policies (continued)

(d) Impairment of financial assets

The Group assesses at each Statement of Financial Position 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.

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, subordinated loans, intercompany payables and other creditors 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.

Other obligations

Provision is made for short-term benefits payable for salaries, holiday pay, social security costs and sick leave on a prorated basis and is included within creditors and accrued charges.

3. Significant accounting policies (continued)

(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.

(i) Deferred taxation

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 Statement of Financial Position date and are expected to apply when the related deferred taxation is realised. Deferred tax 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.

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) Segment 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.

3. Significant accounting policies (continued)

(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 and the valuation of the defined benefit pension. Loans and advances to customers are evaluated for impairment on a basis described in note 4(a)(i), credit risk. The accuracy of the impairment allowances depend on how closely the estimated future cash flows mirror actual experience.

(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) 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)
Disclosure initiative (Amendments to IAS 7)	1 January 2017
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017
Annual improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 12 Disclosure of Interests in Other Entities)	1 January 2017
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

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. 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 assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis may lead to an increase in the overall level of impairment allowances.

(p) Commission sharing schemes

This represents the cost incurred in relation to certain loan books where commission is paid based on the overall profitability of the relevant book. Each such lending scheme has its own commercially agreed terms.

(r) 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 this year to permanently cease funding and wind up the book upon the final repayment date of August 2019.

	2016 £000	(Note 29) 2015 £000
Interest income	601	1,011
Fee and commission expense	(166)	(192)
Provision for impairment on loan assets	(589)	(662)
	(154)	157

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;
- market risk; and
- interest 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 assets and liabilities 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 MFG Group 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 2016 (2015: two introducers).

Management of credit risk

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

- explicit credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- a rigorous authorisation structure for the approval and renewal of credit facilities. Each opportunity is researched for viability, legal/regulatory restriction and risk. If recommended, the proposal is submitted to the Board or the CC. The CC reviews lending assessments in excess of individual credit control or executive discretionary limits;
- reviewing and assessing existing credit risk and collateral. The CC assesses all credit exposures in excess of designated limits, as set out in the underwriting manual;
- limiting concentrations of exposure to counterparties, geographies and industries, and defining sector limits and lending caps;

4. Risk and capital management (continued)

(a) Risk management (continued)

i) Credit risk (continued)

- 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:

	2016 £000	2015 £000
Carrying value	115,190	100,589
Individually impaired		
Grade A	-	-
Grade B	-	-
Grade C	3,010	2,916
Gross value	3,010	2,916
Allowance for impairment	(2,099)	(2,011)
Carrying value	911	905
Collective allowance for impairment	(57)	(50)
Past due but not impaired		
Less than 1 month	2,557	3,065
1 month but less than 2 months	1,314	1,507
2 months but less than 3 months	575	397
3 months and over	1,146	630
Carrying value	5,592	5,599
Neither past due nor impaired	108,744	94,135

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 potential credit 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. 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.

Concentration of credit risk

Geographical

Lending is restricted to individuals and businesses with UK, Isle of Man 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 and vehicle stocking plan loans.

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 and short dated UK Government Treasury Bills. 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 Statement of Financial Position date (undiscounted)

31 December 2016	Sight to 8 days	> 8 days to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 1 year	>1 year to 3 years	>3 years to 5 years	> 5 years	Total
Group	£000	£000	£000	£000	£000	£000	£000	£000	£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

31 December 2015	Sight to 8 days	> 8 days to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 1 year	>1 year to 3 years	>3 years to 5 years	> 5 years	Total
Group	£000	£000	£000	£000	£000	£000	£000	£000	£000
Customer accounts	2,312	1,176	2,287	4,213	25,279	52,859	23,534	-	111,660
Other liabilities	2,960	-	-	-	-	-	1,000	3,234	7,194
Total liabilities	5,272	1,176	2,287	4,213	25,279	52,859	24,534	3,234	118,854

Maturity of assets and liabilities as at the Statement of Financial Position date

31 December 2016	Sight to 8 days	> 8 days to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 1 year	>1 year to 3 years	>3 years to 5 years	> 5 years	Total
Group	£000	£000	£000	£000	£000	£000	£000	£000	£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

31 December 2015	Sight to 8 days	> 8 days to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 1 year	>1 year to 3 years	>3 years to 5 years	> 5 years	Total
Group	£000	£000	£000	£000	£000	£000	£000	£000	£000
Assets									
Cash and cash equivalents	6,026	-	-	-	-	-	-	-	6,026
Available for sale financial instruments	-	3,000	6,995	5,986	-	-	-	-	15,981
Customer accounts receivable	2,023	1,746	6,314	8,935	16,616	47,438	16,741	776	100,589
Other assets	-	-	-	-	-	-	-	3,574	3,574
Total assets	8,049	4,746	13,309	14,921	16,616	47,438	16,741	4,350	126,170

Liabilities									
Customer accounts	2,313	1,175	2,283	4,179	24,869	50,498	21,011	-	106,328
Other liabilities	2,960	-	-	-	-	-	1,000	3,234	7,194
Total liabilities	5,273	1,175	2,283	4,179	24,869	50,498	22,011	3,234	113,522

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 arises through the use of an outsourcing 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's activities is interest rate risk. As at 31 December 2016 and 2015, the fair value of the financial assets and liabilities as presented in the interest risk table below are considered to be equal to their carrying amounts.

The Group is also exposed to market price risk through holding one equity investment, stated at market value. Given the size of this holding, £70,000 at 31 December 2016 (2015: £77,000) the potential impact on the results of the Group is relatively small and no sensitivity analysis has been provided for market 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 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	12,675	14,096	16,466	29,539	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	2,256	5,861	8,438	(5,449)	2,768	1,248	(4,356)	(10,766)	-

4. Risk and capital management (continued)

(a) Risk management (continued)

iv) Market risk (continued)

Interest risk re-pricing table (continued)

31 December 2015	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	6,026	-	-	-	-	-	-	-	6,026
Available for sale financial instruments	3,000	6,995	5,986	-	-	-	-	-	15,981
Customer accounts receivable	3,769	6,314	8,935	16,616	47,438	16,741	776	-	100,589
Other assets	-	-	-	-	-	-	-	3,574	3,574
Total assets	12,795	13,309	14,921	16,616	47,438	16,741	776	3,574	126,170
Liabilities									
Customer accounts	3,488	2,283	4,179	24,869	50,498	21,011	-	-	106,328
Other liabilities	-	-	-	-	-	1,000	2,900	3,294	7,194
Total capital reserves	-	-	-	-	-	-	-	12,648	12,648
Total liabilities and equity	3,488	2,283	4,179	24,869	50,498	22,011	2,900	15,942	126,170
Interest rate sensitivity gap	9,307	11,026	10,742	(8,253)	(3,060)	(5,270)	(2,124)	(12,368)	-

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. The following tables set out the estimated total impact of such a change based on the mismatch at the Statement of Financial Position date.

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	2,256	5,861	8,438	(5,449)	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	59	(76)	75	67	(501)	-	(358)

31 December 2015	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	9,307	11,026	10,742	(8,253)	(3,060)	(5,270)	(2,124)	(12,368)	-
Weighting	0.000	0.003	0.007	0.014	0.027	0.054	0.115	0.000	-
Cumulative	-	33	75	(116)	(83)	(285)	(244)	-	(620)

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 the FSA requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. This requirement has been adhered to throughout the year. The Group's regulatory capital is 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:

	2016 £000	2015 £000
Tier 1 capital		
Ordinary share capital	5,000	5,000
Retained earnings [^]	7,957	7,563
Deduction for goodwill	(448)	(448)
Deduction for intercompany receivables	(161)	(615)
Total Tier 1 capital	12,348	11,500
Tier 2 capital		
Subordinated loans	5,000	3,900
Collective allowances for impairment (subject to FSA limit)	57	50
Deduction for intercompany receivables	(160)	(615)
Total Tier 2 capital	4,897	3,335
Total regulatory capital	17,245	14,835
Total risk-weighted assets	110,222	90,595
Risk asset ratio		
Total regulatory capital expressed as a percentage of total risk-weighted assets	16%	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 is deducted equally from 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;
- 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

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

- 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 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment securities				
Government bonds	23,991	-	-	23,991
Equities	70	-	-	70
	<u>24,061</u>	<u>-</u>	<u>-</u>	<u>24,061</u>

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 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
	<u>-</u>	<u>122,554</u>	<u>-</u>	<u>122,554</u>	<u>122,554</u>
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
	<u>-</u>	<u>133,893</u>	<u>-</u>	<u>133,893</u>	<u>133,893</u>

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.

To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics such as loan to value ratios, the quality of collateral, product and borrower type, prepayment and delinquency rates, and default probability.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

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, the Isle of Man, UK and the 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 and personal loans).

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
<hr/>	
For the year ended 31 December 2015	Asset and Personal Finance £000
Net interest income	13,543
Operating income	6,954
Provision for impairment	(396)
Profit before tax	2,240
Capital expenditure	174
Total assets	126,170
Total liabilities	113,522

Segmental capital expenditure is the total cost incurred during the year to acquire equipment and fund leasehold improvements.

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.

7. Allowances for impairment

The charge in respect of specific allowances for impairment comprises:

	2016 £000	(Note 29) 2015 £000
Specific impairment allowances made	822	593
Reversal of allowances previously made	<u>(475)</u>	<u>(196)</u>
Total charge for specific allowances for impairment	347	397

The charge / (credit) in respect of collective allowances for impairment comprises:

	2016 £000	(Note 29) 2015 £000
Collective impairment allowances made	12	2
Release of allowances previously made	<u>(5)</u>	<u>(3)</u>
Total charge / (credit) for collective allowances for impairment	7	(1)
Total charge for allowances for impairment	354	396

8. Profit before taxation

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

	2016 £000	2015 £000
Profit on sale of fixed assets	-	(12)
Directors' fees	195	185
Directors' remuneration	304	297
Directors' pensions	30	30
Directors' performance related pay	60	54
Auditors' remuneration	62	85
	as Auditors current year non-audit services	19
Pension cost defined contribution scheme	13	14
Operating lease rentals for property	<u>204</u>	<u>138</u>

9. Depositors' Compensation Scheme recovery

	2016 £000	2015 £000
Receipt in respect of the Isle of Man Government Depositors' Compensation Scheme	<u>-</u>	<u>9</u>
	-	9

On 27 May 2009, Kaupthing Singer & Friedlander (Isle of Man) Limited activated the Isle of Man Government Depositors' Compensation Scheme (the Scheme) in connection with its liquidation. Three payments of £73,880 were made into the Scheme. Repayments from the FSA of £133,506 and £34,424 have been received and a further £53,710 is expected from the Scheme. In 2015, the Bank received £9,408 as a final repayment for a Scheme for the Bank of Credit and Commerce Overseas Limited launched in 1991.

10. Tax payable

	2016 £000	2015 £000
Current tax expense		
Current year	114	21
Changes to estimates for prior years	8	(15)
	<u>122</u>	<u>6</u>
Deferred tax expense		
Origination and reversal of temporary differences	(10)	4
Utilisation of previously recognised tax losses	78	196
Changes to estimates for prior years	17	(2)
	<u>85</u>	<u>198</u>
Total tax expense	207	204

		2016 £000		2015 £000
Reconciliation of effective tax rate				
Profit before tax on continuing operations		840		2,240
Tax using the Company's domestic tax rate	10.0%	84	10.0%	224
Effect of tax rates in foreign jurisdictions	3.3%	28	0.5%	10
Non deductible expenses	11.4%	96	0.7%	16
Tax exempt income	(1.2)%	(10)	(0.8)%	(18)
Timing differences in current year	(0.8)%	(7)	(0.7)%	(15)
Origination and reversal of temporary differences in deferred tax	(1.2)%	(10)	0.2%	4
Changes to estimates for prior years	3.1%	26	(0.8)%	(17)
		<u>207</u>		<u>204</u>
Total tax expense	24.6%		9.4%	

The main rate of corporation tax in the Isle of Man is 0.0% (2015: 0.0%), however the profits of the Group's banking activities are taxed at 10.0% (2015: 10.0%). The profits of the Group's subsidiaries that are subject to UK corporation tax are taxed at a rate of 20% (2015: 20%). The value of timing differences carried forward is £41,000, which has been recognised as a deferred tax liability in the current year (2015: £44,000 deferred tax asset).

11. 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 £207,000 (2015: £1,941,000).

12. Cash and cash equivalents

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Cash at bank and in hand	5,519	6,026	5,407	5,974
Short term deposits	-	-	-	-
	<u>5,519</u>	<u>6,026</u>	<u>5,407</u>	<u>5,974</u>

Cash at bank includes an amount of £63,000 (2015: £140,000) representing receipts which are in the course of transmission.

13. 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 has been received from this investment since it was made.

14. Available for sale financial instruments

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
UK Government Treasury Bills	23,991	15,981	23,991	15,981
	23,991	15,981	23,991	15,981

UK Government Treasury Bills are stated at fair value and changes in the fair value are reflected in equity.

15. Loans and advances to customers

Group and Company	Gross Amount £000	2016 Impairment Allowance £000	Carrying Value £000	2015		
				Gross Amount £000	Impairment Allowance £000	
HP	60,474	(1,309)	59,165	62,376	(1,136)	61,240
Finance lease	14,689	(673)	14,016	10,030	(656)	9,374
Unsecured personal loans	7,343	(162)	7,181	3,904	(180)	3,724
Vehicle stocking plans	1,366	-	1,366	1,119	-	1,119
Block discounting	13,213	-	13,213	8,935	-	8,935
Secured commercial loans	2,257	(12)	2,245	4,947	(89)	4,858
Secured personal loans	18,004	-	18,004	11,339	-	11,339
	117,346	(2,156)	115,190	102,650	(2,061)	100,589

Collateral is held, in the form of underlying assets, for HP, finance leases, vehicle stocking plans, block discounting and secured commercial and personal loans. 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.

Specific allowance for impairment	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Balance at 1 January	2,011	1,754	2,011	1,754
Charge for allowances made	823	1,255	823	1,255
Release of allowances previously made	(475)	(130)	(475)	(130)
Write-offs	(260)	(868)	(260)	(868)
Balance at 31 December	2,099	2,011	2,099	2,011

Collective allowance for impairment	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Balance at 1 January	50	51	50	51
Collective allowance for impairment made	12	2	12	2
Release of allowances previously made	(5)	(3)	(5)	(3)
Balance at 31 December	57	50	57	50
Total allowances for impairment	2,156	2,061	2,156	2,061

15. Loans and advances to customers (continued)

Advances on preferential terms are available to all Executive Directors, management and staff. As at 31 December 2016, £306,895 (2015: £208,017) was 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.

At the end of the current financial year three loan exposures exceeded 10.0% of the capital base of the Company and Group, (2015: four loan exposures):

Exposure	Outstanding Balance		Facility Limit
	2016 £000	2015 £000	2016 £000
Block discounting facility	9,302	7,345	11,000

HP and finance lease receivables

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

	2016 £000	2015 £000
Less than one year	34,468	33,651
Between one and five years	59,669	60,107
Gross investment in HP and finance lease receivables	94,137	93,758
Unearned future income on finance leases	(18,974)	(21,352)
Investment in HP and finance lease receivables net of unearned income	75,163	72,406

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

	2016 £000	2015 £000
Less than one year	25,726	24,132
Between one and five years	49,437	48,274
Net investment in HP and finance lease receivables	75,163	72,406

16. Goodwill

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £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)
	<u>448</u>	<u>448</u>	<u>448</u>	<u>448</u>

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 (2015: 12.0% discount factor). The sensitivity of the analysis was tested using additional discount factors of 15.0% and 20.0% and varying sales volumes.

On the basis of the above reviews no impairment to goodwill has been made in the current year (2015: 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 2016	184	1,372	167	57	1,780
Additions	-	67	-	-	67
Disposals	-	-	-	-	-
As at 31 December 2016	<u>184</u>	<u>1,439</u>	<u>167</u>	<u>57</u>	<u>1,847</u>
Depreciation					
As at 1 January 2016	56	1,004	143	18	1,221
Provided in the year	21	142	7	14	184
Eliminated on disposals	-	-	-	-	-
As at 31 December 2016	<u>77</u>	<u>1,146</u>	<u>150</u>	<u>32</u>	<u>1,405</u>
Carrying value at 31 December 2016	<u>107</u>	<u>293</u>	<u>17</u>	<u>25</u>	<u>442</u>
Carrying value at 31 December 2015	128	368	24	39	559

Fixed assets with a net book value of £19,000 (2015: £39,000) are held by Conister Finance & Leasing Ltd, which relate to motor vehicles. All other fixed assets are held by the Company.

18. Investment in and loans to group undertakings

The Company has the following investments:

Name	Nature of business	31 December 2016 Holding %	Date & place of incorporation	Cost of investment 2016 £	Cost of investment 2015 £
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
Conister Legal Management Services Limited	Litigation finance	100.0	13.2.2004#	1	1
Transbank Limited	Dormant	100.0	31.1.2006#	1	1
Transbank Card Services Limited	Dormant	100.0	12.6.2007^	1	1
Total investment at cost				10,005	10,005

Subsidiary was incorporated within the Isle of Man.

^ Subsidiary was incorporated within the United Kingdom.

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

In the current year, a net impairment of £728,000 was made against all intercompany balances receivable following a review of their recoverability.

19. Trade and other receivables

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Prepayments and other debtors	718	696	714	695
Depositors Compensation Scheme Receivable	54	54	54	54
VAT Recoverable	752	466	752	466
	1,524	1,216	1,520	1,215

Included in trade and other receivables is an amount of £752,000 (2015: £466,000) relating to a reclaim of value added tax (VAT). Conister Bank Limited (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 £295,000.

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 £865,000, 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.

20. Customer accounts

Group and Company	2016 £000	2015 £000
Retail customers	124,398	103,041
Corporate customers	1,554	3,287
	125,952	106,328

Fiduciary deposits

At 31 December 2016 the Bank acted as agent bank to a number of customers, for balances totalling £3.4 million (2015: £4.0 million). 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.

21. Creditors and accrued charges

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Commission creditors	2,495	2,300	2,495	2,300
Other creditors and accruals	296	566	243	547
	2,791	2,866	2,738	2,847

22. 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".

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.

22. Pension liability (continued)

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 2016 (2015: 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 International Accounting Standards 19 this valuation has been updated by the actuary as at 31 December 2016.

The amounts recognised in the consolidated Statement of Financial Position are as follows:

	2016 £000	2015 £000
Total underfunding in funded plans recognised as a liability		
Fair value of plan assets	1,420	1,332
Present value of funded obligations	(2,034)	(1,666)
	(614)	(334)
Movement in the liability for defined benefit obligations	£000	£000
Opening defined benefit obligations at 1 January	1,666	1,733
Benefits paid by the plan	(68)	(82)
Interest on obligations	64	64
Actuarial loss / (gain)	372	(49)
Liability for defined benefit obligations at 31 December	2,034	1,666
Movement in plan assets	£000	£000
Opening fair value of plan assets at 1 January	1,332	1,345
Expected return on assets	51	50
Contribution by employer	49	49
Actuarial gain / (loss)	56	(30)
Benefits paid	(68)	(82)
Closing fair value of plan assets at 31 December	1,420	1,332
Expense recognised in Statement of Comprehensive Income	£000	£000
Interest on obligation	64	64
Interest on plan assets	(51)	(50)
Total included in personnel costs	13	14
Actual return on plan assets	107	20

22. Pension liability (continued)

	2016 £000	2015 £000
Actuarial (loss) / gain recognised in Statement of Other Comprehensive Income		
Actuarial gain / (loss) on plan assets	56	(30)
Actuarial (loss) / gain on defined benefit obligations	(372)	49
	<u>(316)</u>	<u>19</u>

Plan assets consist of the following	2016 %	2015 %
Equity securities	47	27
Corporate bonds	16	23
Government bonds	25	41
Cash	7	3
Other	5	6
	<u>100</u>	<u>100</u>

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

	2016 %	2015 %	2014 %
Rate of increase in pension in payment:			
- service up to 5 April 1997	-	-	-
- service from 6 April 1997 to 13 September 2005	3.1	2.7	2.7
- service from 14 September 2005	2.1	2.0	2.0
Rate of increase in deferred pensions	5.0	5.0	5.0
Discount rate applied to scheme liabilities	2.7	3.9	3.8
Inflation	3.2	2.8	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.

23. Called up share capital

Authorised: Ordinary shares of 25p each	Number	£000
As at 31 December 2016	52,000,000	13,000
As at 31 December 2015	52,000,000	13,000
Issued and fully paid: Ordinary shares of 25p each	Number	£000
As at 31 December 2016	20,000,000	5,000
As at 31 December 2015	20,000,000	5,000

24. Analysis of changes in financing during the year

Group and Company	2016 £000	2015 £000
Opening balance	8,900	8,900
Issue of subordinated loans	1,100	-
Closing balance	10,000	8,900

The closing balance is represented by £5,000,000 share capital (2015: £5,000,000) and £5,000,000 subordinated loans (2015: £3,900,000).

25. Regulator

The Group is licensed to undertake banking activities by the Isle of Man FSA.

26. Related party transactions

Cash deposits

During the year the Bank held cash on deposit on behalf of the following related individuals:

Jim Mellon (Executive Chairman of MFG)

Companies related to Jim Mellon and Denham Eke (Chief Executive Officer of MFG)

Total deposits amounted to £76,000 (2015: £31,000), at normal commercial interest rates in accordance with the standard rates offered by the Bank.

Funds held in a fiduciary capacity

A number of funds were held and accounts maintained in connection with the fiduciary services that the Bank offers to companies connected with Jim Mellon and Denham Eke at normal commercial terms. As at 31 December 2016, total balances held were £3,373,639 (2015: £4,012,491)

Staff and commercial loans

Details of staff loans are given in note 15 to the financial statements.

Normal commercial loans are made to various companies connected to Jim Mellon. As at 31 December 2016, £400,518 of capital and interest was outstanding (2015: £131,863).

Loan advance to Edgewater Associates Limited ("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.

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.

Investments

The Bank holds less than 1% equity in the share capital of an investment of which Jim Mellon is a shareholder (note 13). Denham Eke acts as a non-executive director.

Subordinated loans

Creation	Maturity	Interest rate	2016 £000	2015 £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	-
			5,000	3,900

In total, MFG has issued seven 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

	2016 £000	2015 £000
Short-term employee benefits	364	352

27. Operating leases

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

	2016	2015
	£000	£000
Less than one year	123	137
Between one and five years	459	501
Over five years	-	90
Total operating lease rentals payable	582	728

28. Subsequent events

There are no significant subsequent events to report.

29. Comparative figures

The Consolidated Statement of Comprehensive Income for the previous year has been restated in order to present Terminal funding, as analysed by note 3(r), in a consistent manner to the current year.