Conister Bank Limited

Directors' report and financial statements
For the year ended 31 December 2019

Contents

Directors

David Gibson (72) ≠
Non-executive Chairman

Alan Clarke (69)
Non-executive Director

Denham Eke (68)
Non-executive Director

Douglas Grant (55)
Managing Director

Ian Morley (68) ≠
Non-executive Director

Haseeb Qureshi (31)
Chief Operating Officer
(appointed: 3 July 2019)

James Smeed (35)
Finance Director

≠ Independent Non-executive Director

Company Secretary

Lesley Crossley (appointed: 2 September 2019)

Rachel Bradley (resigned: 2 September 2019)

Registered Office

Clarendon House
Victoria Street
Douglas
Isle of Man IM1 2LN

Advisers

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

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

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

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

Pension Fund Investment Manager
Canaccord Genuity Wealth Management
Anglo International House
Bank Hill
Douglas
Isle of Man IM1 4LN

Conister Bank Limited
Directors' Report
for ~~the~~ year ended 31 December 2019

The Directors have pleasure in submitting their annual report and the audited financial statements for the year ended 31 December 2019.

Principal activities

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

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

Results and dividends

The Directors do not propose the payment of a dividend (2018: £nil). The proposed transfers to and from reserves are as set out in the Consolidated and Bank Statement of Changes in Equity on page 13.

Share capital

Particulars of the authorised and issued share capital of the Bank are set out in note 23 to the financial statements.

Significant shareholdings

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

Directors

Details of current Directors are set out on page 1.

Directors' liability insurance

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

Fixed assets

The movement in fixed assets during the year is set out in note 15 to the financial statements.

Staff

At 31 December 2019 there were 76 members of staff, 5 of whom were part-time (2018: 66 members of staff, 5 of whom were part-time).

Investments in subsidiaries

Investments in the Bank's subsidiaries are disclosed in note 17 to the financial statements.

Auditor

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

By order of the Board

L · A · Crossley

Lesley Crossley
Company Secretary
26 February 2020

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

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

The Role of the Board

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

Group Audit, Risk and Compliance Committee ("ARCC")

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

Group Remuneration Committee

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

Group Nomination Committee

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

Division of Responsibilities

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

The Chairman

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

Non-executive Directors

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

The Composition of the Board

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

Appointments to the Board

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

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

Commitment

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

Development

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

Information and Support

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

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

Evaluation

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

Financial and Business Reporting

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

Risk Management and Internal Control

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

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

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

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

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Bank and of their profit or loss for that period. In preparing each of the Group and Bank financial statements, the Directors are required to:

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

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

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

Opinion
We have audited the financial statements of Conister Bank Limited (the "Bank") for the year ended 31 December 2019 which comprise the Consolidated and Bank Statements of Profit or Loss and Other Comprehensive Income, Financial Position, Changes in Equity, Cash Flows and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2019 and of the Group's and Bank's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), as applicable to an Isle of Man Company; and
- have been properly prepared in accordance with the requirements of the Companies Acts 1931 to 2004.

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

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

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

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

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

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

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

- proper books of account have not been kept by the Bank and proper returns adequate for our audit have not been received from branches not visited by us; or
- the Bank's financial statements are not in agreement with the books of account and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

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

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

The purpose of our audit work and to whom we owe our responsibilities.
This report is made solely to the Bank's member, as a body, in accordance with Section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Bank's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's member as a body, for our audit work, for this report, or for the opinions we have formed.

KPMG Audit LLC

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

6 March 2020

For the year ended 31 December	Note	2019 £000	2018 £000
Interest income	6	22,353	19,159
Interest expense		(4,822)	(4,010)
Net interest income		17,531	15,149
Fee and commission expense		(5,667)	(6,099)
Net trading income		11,864	9,050
Other operating income		276	230
Realised gains on debt securities	11	181	136
Loss on trading asset	12	(1)	(4)
Terminal funding	3(n)	80	73
Operating income		12,400	9,485
Personnel expenses		(4,148)	(3,537)
Other expenses		(3,073)	(2,648)
Impairment of loans and advances from customers	7	(1,900)	(857)
Depreciation	15	(510)	(119)
Amortisation	16	(199)	(172)
Share of profit of equity accounted investees	17	121	28
Impairment of intercompany receivables	17	-	(105)
VAT recovery	18	(101)	119
Profit before tax payable	8	2,590	2,194
Income tax expense	9	(329)	(243)
Profit for the year after taxation		2,261	1,951
Other comprehensive income			
Items that will be reclassified to profit or loss			
Unrealised gains on debt securities taken to equity	11	50	44
Items that will never be reclassified to profit or loss			
Actuarial losses on defined benefit pension scheme taken to equity	22	(128)	(50)
Total comprehensive income for the year attributable to owners		2,183	1,945

The notes on pages 16 to 47 form part of these financial statements.

The Directors believe that all results derive from continuing activities.

For the year ended 31 December	Note	2019 £000	2018 £000
Interest income	6	22,094	18,959
Interest expense		(4,630)	(3,981)
Net interest income		17,464	14,978
Fee and commission expense		(6,896)	(6,101)
Net trading income		10,568	8,877
Other operating income		295	224
Realised gains on debt securities	11	181	136
Loss on trading asset	12	(1)	(4)
Terminal funding	3(n)	80	73
Operating income		11,123	9,306
Personnel expenses		(3,414)	(3,371)
Other expenses		(2,757)	(2,562)
Impairment of loans and advances to customers	7	(1,900)	(857)
Depreciation		(505)	(119)
Amortisation		(187)	(172)
Share of profit of equity accounted investees, net of tax	17	121	28
Impairment of intercompany receivables	17	-	(105)
VAT recovery	18	(101)	119
Profit before tax payable	8	2,380	2,267
Income tax expense	9	(291)	(243)
Profit for the year after taxation		2,089	2,024
Other comprehensive income			
Items that will be reclassified to profit or loss			
Unrealised gains on debt securities taken to equity	11	50	44
Items that will never be reclassified to profit or loss			
Actuarial loss on defined benefit pension scheme taken to equity	22	(128)	(50)
Total comprehensive income for the year attributable to owners		2,011	2,018

The notes on pages 16 to 47 form part of these financial statements.

The Directors believe that all results derive from continuing activities.

As at 31 December	Note	2019 £000	2018 £000
Assets			
Cash and cash equivalents	10	13,452	7,154
Debt securities	11	46,792	30,534
Trading asset	12	19	20
Loans and advances to customers	13	179,764	148,786
Trade and other receivables	18	1,699	1,815
Amounts due from Group undertakings	17	224	307
Property, plant and equipment	15	2,572	1,192
Intangible assets	16	563	601
Investment in associates	17	187	66
Goodwill	14	448	448
Total assets		245,720	190,923
Liabilities			
Deposits from customers	19	209,933	158,500
Creditors and accrued charges	20	1,945	1,754
Block creditors	21	-	138
Amounts due to Group undertakings	17	531	1,208
Subordinated loans	26	7,450	7,450
Pension liability	22	688	583
Deferred tax liability	9	138	88
Total liabilities		220,685	169,721
Equity			
Called up share capital	23	10,750	9,100
Retained earnings		14,285	12,102
Total equity		25,035	21,202
Total liabilities and equity		245,720	190,923

The financial statements were approved by the Board of Directors on 26 February 2020 and signed on their behalf by:

David Gibson
Chairman

Douglas Grant
Managing Director

James Smeed
Finance Director

The notes on pages 16 to 47 form part of these financial statements.

Conister Bank Limited
Bank Statement of Financial Position

As at 31 December	Note	2019 £000	2018 £000
Assets			
Cash and cash equivalents	10	**10,900**	6,909
Debt securities	11	**46,792**	30,534
Trading asset	12	**19**	20
Loans and advances to customers	13	**178,105**	144,619
Trade and other receivables	18	**1,633**	1,780
Amounts due from Group undertakings	17	**926**	1,991
Property, plant and equipment		**2,549**	1,182
Intangible assets		**517**	578
Investment in Group undertakings	17	**1,011**	1,011
Investment in associates	17	**187**	66
Goodwill	14	**448**	448
Total assets		**243,087**	189,138
Liabilities			
Deposits from customers	19	**209,933**	158,500
Creditors and accrued charges	20	**1,848**	1,718
Amounts due to Group undertakings	17	**516**	1,946
Subordinated loans	26	**7,450**	7,450
Pension liability	22	**688**	583
Deferred tax liability	9	**138**	88
Total liabilities		**220,573**	170,285
Equity			
Called up share capital	23	**10,750**	9,100
Retained earnings		**11,764**	9,753
Total equity		**22,514**	18,853
Total liabilities and equity		**243,087**	189,138

The financial statements were approved by the Board of Directors on 26 February 2020 and signed on their behalf by:

David Gibson
Chairman

Douglas Grant
Managing Director

James Smeed
Finance Director

The notes on pages 16 to 47 form part of these financial statements.

Group	Share Capital £000	Retained earnings and other reserves £000	Total £000
Balance as at 1 January 2018	6,700	10,157	16,857
Profit for the year after taxation	-	1,951	1,951
Other comprehensive income	-	(6)	(6)
Transactions with owners:			
Shares issued	2,400	-	2,400
Balance as at 31 December 2018	9,100	12,102	21,202
Profit for the year after taxation	**-**	**2,261**	**2,261**
Other comprehensive income	**-**	**(78)**	**(78)**
Transactions with owners:			
Shares issued	**1,650**	**-**	**1,650**
Balance as at 31 December 2019	**10,750**	**14,285**	**25,035**

Bank	Share Capital £000	Retained earnings and other reserves £000	Total £000
Balance as at 1 January 2018	6,700	7,735	14,435
Profit for the year after taxation	-	2,024	2,024
Other comprehensive income	-	(6)	(6)
Transactions with owners:			
Shares issued	2,400	-	2,400
Balance as at 31 December 2018	9,100	9,753	18,853
Profit for the year after taxation	**-**	**2,089**	**2,089**
Other comprehensive income	**-**	**(78)**	**(78)**
Transactions with owners:			
Shares issued	**1,650**	**-**	**1,650**
Balance as at 31 December 2019	**10,750**	**11,764**	**22,514**

The notes on pages 16 to 47 form part of these financial statements.

For the year ended 31 December	Note	2019 £000	2018 £000
RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS			
Profit before tax on continuing activities		2,590	2,194
Adjustments for:			
Depreciation	15	510	119
Amortisation	16	199	172
Realised gain on debt securities	11	(181)	(136)
Change in share in net assets of associates	17	(121)	(28)
Pension cost in personnel expenses		17	15
Changes in:			
Trading asset	12	1	4
Trade and other receivables		108	(676)
Creditors and accrued charges		46	(1,068)
Amounts due from Group undertakings		83	(252)
Amounts due to Group undertakings		(677)	1,207
Net cash inflow from trading activities		2,575	1,551
Changes in:			
Loans and advances to customers		(30,979)	(25,588)
Deposits from customers		51,435	16,228
Pension contributions	22	(41)	(41)
Cash inflow / (outflow) from operating activities		22,990	(7,850)

CASH FLOW STATEMENT			
Cash from operating activities			
Cash inflow / (outflow) from operating activities		22,990	(7,850)
Income taxes paid		(331)	(182)
Net cash inflow / (outflow) from operating activities		22,659	(8,032)
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(1,578)	(1,096)
Purchase of intangible assets	16	(161)	(493)
(Sale) / purchase of debt securities	11	(16,027)	3,918
Net cash (outflow) / inflow from investing activities		(17,766)	2,329
Cash flows from financing activities			
Receipt of subordinated loans	26	-	2,000
Increase in share capital	23	1,650	2,400
Payment of lease liability (capital)	2(e)	(107)	-
Reduction in block creditors	21	(138)	(612)
Net cash inflow from financing activities		1,405	3,788
Increase / (decrease) in cash and cash equivalents		6,298	(1,915)
Included in cash flows are:			
Interest received - cash amounts		21,901	18,772
Interest paid - cash amounts		4,666	3,880

The notes on pages 16 to 47 form part of these financial statements.

For the year ended 31 December	Note	2019 £000	2018 £000
RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS			
Profit before tax on continuing activities		2,380	2,267
Adjustments for:			
Depreciation		505	119
Amortisation		187	172
Realised gain on debt securities	11	(181)	(136)
Change in share in net assets of associate	17	(121)	(28)
Pension cost in personnel expenses		17	15
Changes in:			
Trading assets	12	1	4
Trade and other receivables		141	(642)
Creditors and accrued charges		23	(963)
Amounts due from Group undertakings		1,065	(1,976)
Amounts due to Group undertakings		(1,430)	(604)
Net cash inflow / (outflow) from trading activities		2,587	(1,772)
Changes in:			
Loans and advances to customers		(33,487)	(22,300)
Deposits from customers		51,433	16,228
Pension contributions	22	(41)	(41)
Cash inflow / (outflow) from operating activities		20,492	(7,885)

CASH FLOW STATEMENT

Cash flows from operating activities			
Cash inflow / (outflow) from operating activities		20,492	(7,885)
Income taxes paid		(331)	(182)
Net cash inflow / (outflow) from operating activities		20,161	(8,067)
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,560)	(1,086)
Purchase of intangible assets		(126)	(470)
(Sale) / purchase of debt securities	11	(16,027)	3,918
Net cash (outflow) / inflow from investing activities		(17,713)	2,362
Cash flows from financing activities			
Receipt of subordinated loans	26	-	2,000
Increase in share capital	23	1,650	2,400
Payment of lease liability (capital)	2(e)	(107)	-
Net cash inflow from financing activities		1,543	4,400
Increase / (decrease) in cash and cash equivalents		3,991	(1,305)
Included in cash flows are:			
Interest received - cash amounts		21,973	18,576
Interest paid - cash amounts		(4,480)	(3,852)

The notes on pages 16 to 47 form part of these financial

1. Reporting entity

Conister Bank Limited (the "Bank") is a Bank incorporated in the Isle of Man. The consolidated financial statements of the Bank for the year ended 31 December 2019 comprise the Bank and its subsidiaries (the "Group").

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

2. Basis of preparation

(a) Statement of compliance

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

The Group has continued to apply the accounting policies used for the 2018 annual report, with the exception of those listed below.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

(e) Changes in significant accounting policies

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

IFRS 16 Leases

The Group has initially adopted IFRS 16 *Leases* from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated. Therefore it is presented as previously reported under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

2. Basis of preparation (continued)
(e) Changes in significant accounting policies (continued)
IFRS 16 Leases (continued)

A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease.* The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

The Group leases many assets, including properties and IT equipment.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases, that is these leases are presented on the Statement of Financial Position.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. The Group presents right-of-use assets and lease liability separately on the Statement of Financial Position.

i. Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment loss and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost of the lease liability and decreased by the lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised, or a termination option is reasonably certain not to be exercised.

The Group has applied judgment to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

ii. Impacts on transition

Previously, the Group classified property leases as operating leases under IAS 17. The leases typically run for a period of 10 years. The operating lease commitment relating to these leases at 31 December 2018 as disclosed in the Group's consolidated financial statements was £408,000.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. The weighted average rate applied is 5.5% per annum.

Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of net prepaid and accrued lease payments of £8,000.

The impact on transition is summarised below.

As at 1 January 2019	**£000**
Right-of-use assets	312
Net prepaid operating lease payments	(8)
Lease liabilities	(304)
Retained earnings	-

2. Basis of preparation (continued)
(e) Changes in significant accounting policies (continued)
IFRS 16 Leases (continued)

iii. Impacts for the year

Right-of-use assets

The carrying amount of right-of-use assets at the end of the year is as follows:

	Property £000	Right-of-use assets £000
Balance at 1 January 2019	312	312
Depreciation expense	(104)	(104)
Balance at 31 December 2019	208	208

Lease liability

The carrying amount of lease liability at the end of the year is as follows:

	Property £000	Lease liability £000
Balance at 1 January 2019	304	304
Interest expense	47	47
Rent payment	(154)	(154)
Balance at 31 December 2019	197	197

The Group has classified cash payments for the principal portion of lease payments as financing activities.

iv. Exemptions taken

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term; and
- Exclude initial direct costs from measuring the right-of-use asset at the date of initial application.

C. As a lessor

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

3. Significant accounting policies

(a) Basis of consolidation of subsidiaries

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

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

(b) Property, plant and equipment and intangible assets

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

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

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

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

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

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

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

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

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

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

ii. Classification
Financial assets
On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") or FVTPL.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

iv. Modifications
Financial assets
If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

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

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

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

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

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

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

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

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

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

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

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

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In making an assessment of whether an investment in sovereign debt is credit impaired, the Group considers the following factors:

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

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

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

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

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

Write-off (continued)

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

(d) Cash and cash equivalents

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

(e) Long term employee benefits

Pension obligations

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

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

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

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

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

(f) Leases

Leases in which the Group is a lessor

Finance leases and HP contracts

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

Operating leases

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

Leases in which the Group is a lessee

Operating leases

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

(g) Current and deferred taxation

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

3. Significant accounting policies (continued)

(h) Interest income and expense

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

Effective interest rate

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

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

(i) Fees and commission income

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

(j) Segmental reporting

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

(k) Key sources of estimation uncertainty

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

(l) Interests in equity accounted investees

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

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

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

(m) Standards issued but not yet effective

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

Standards	**Effective date** (accounting periods commencing on or after)
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (issued on 26 September 2019)	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	1 January 2020

3. Significant accounting policies (continued)

(n) Terminal funding

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

	2019 £000	2018 £000
Interest income	78	180
Fee and commission expense	-	(5)
Provision for impairment on loan assets	2	(102)
	80	73

4. Risk and capital management

(a) Risk management

Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

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

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

Risk management framework

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

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

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

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

i) Credit risk

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

The Group is principally exposed to credit risk with regard to loans and advances to customers, comprising HP and finance lease receivables, unsecured personal loans, secured personal loans, block discounting and stocking plan loans. It is also exposed to credit risk with regard to cash balances and trade and other receivables. In addition, the Bank lends via significant introducers into the UK. There was one introducer that individually accounted for more than 15.0% of the Bank's total lending portfolio at the end of 31 December 2019 (2018: one introducer).

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

Management of credit risk

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

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

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

	2019				2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
	£000	**£000**	**£000**	**£000**	£000
Loans and advances at amortised cost					
Grade A	169,190	-	-	169,190	140,202
Grade B	1,143	1,675	-	2,818	6,153
Grade C	-	1,985	10,544	12,529	5,825
Gross value	170,333	3,660	10,544	184,537	152,180
Allowance for impairment	(116)	(467)	(4,190)	(4,773)	(3,394)
Carrying value	170,217	3,193	6,354	179,764	148,786
Overdue status of loans					
Current	145,373	-	-	145,373	137,703
Overdue < 30 days	24,653	-	-	24,653	2,499
Overdue > 30 days	307	3,660	10,544	14,511	11,978
Neither past due nor impaired	170,333	3,660	10,544	184,537	152,180

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

For Stage 3 loans and advances that are overdue for more than 30 days, the Bank considers to hold collateral with a value of £8,706,600 (2018: £6,946,660) representing security cover of 60 % (2018: 58%)

Collateral

The Group holds collateral in the form of the underlying assets (typically private and commercial vehicles, plant and machinery) as security for HP, finance leases, vehicle stocking plans, block discounting, wholesale funding agreements and secured commercial loan balances, which are sub-categories of loans and advances to customers. In addition, the commission share schemes have an element of capital indemnification. In 2019, 25.5% of loans and advances (2018: 37.9%) fell into this category. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. At the time of granting credit within the sub-categories listed above, the loan balances due are secured over the underlying assets held as collateral (see note 13 for further details).

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

Concentration of credit risk

Geographical

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

Segmental

The Group is exposed to credit risk with regard to customer loan accounts, comprising HP and finance lease balances, unsecured personal loans, secured commercial loans, block discounting, wholesale and vehicle stocking plan loans. In addition, the Bank lends via significant introducers into the UK. There was one introducer that accounted for more than 15% of the Bank's total lending portfolio at the end of 31 December 2019 (2018: one introducer).

ii) Liquidity risk

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

Management of liquidity risk

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

Minimum liquidity

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

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

Measurement of liquidity risk

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

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

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

Group **31 December 2019**	**Sight to 8 days** **£000**	**> 8 days to 1 month** **£000**	**>1 month to 3 months** **£000**	**>3 months to 6 months** **£000**	**>6 months to 1 year** **£000**	**>1 year to 3 years** **£000**	**>3 years to 5 years** **£000**	**>5 years** **£000**	**Total** **£000**
Deposits from customers	2,900	5,127	19,670	40,315	43,792	77,746	22,397	-	211,947
Other liabilities	3,302	-	-	-	-	-	1,500	5,950	10,752
Total liabilities	6,202	5,127	19,670	40,315	43,792	77,746	23,897	5,950	222,699

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

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

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

Group 31 December 2019	Sight to 8 days £000	> 8 days to 1 month £000	>1 month to 3 months £000	>3 months to 6 months £000	>6 months to 1 year £000	>1 year to 3 years £000	>3 years to 5 years £000	>5 years £000	Total £000
Assets									
Cash and cash equivalents	13,452	-	-	-	-	-	-	-	13,452
Debt securities	-	5,795	15,748	17,751	-	7,498	-	-	46,792
Loans and advances to customers	12,958	2,017	12,652	14,977	32,615	77,077	27,461	7	179,764
Other assets	19	-	-	-	-	-	-	5,693	5,712
Total assets	26,429	7,812	28,400	32,728	32,615	84,575	27,461	5,900	245,720
Liabilities									
Deposits from customers	2,889	5,060	19,411	39,867	43,574	76,953	22,179	-	209,933
Other liabilities	3,302	-	-	-	-	-	1,500	5,950	10,752
Total liabilities	6,191	5,060	19,411	39,867	43,574	76,953	23,679	5,950	220,685

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

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

iv) Market risk
Market risk is the risk that changes in the level of interest rates, changes in the rate of exchange between currencies or changes in the price of securities and other financial contracts including derivatives will have an adverse financial impact. The primary market risk within the Group is interest rate risk exposure. As at 31 December 2019 and 2018, the fair value of the financial instruments as presented in the interest risk table below are considered to be equal to their carrying amounts.

During the year the Group was exposed to market price risk through holding available-for-sale financial instruments. The only significant exposure relates to the financial asset carried at fair value through profit and loss, which is an equity investment stated at market value. Given the size of this holding, which was £19,000 at 31 December 2019 (2018: £20,000) the potential impact on the results of the Group is relatively small and no sensitivity analysis has been provided for the market price risk.

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

iv) 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 2019	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	13,452	-	-	-	-	-	-	-	13,452
Debt securities	5,795	15,748	17,751	-	7,498	-	-	-	46,792
Loans and advances to customers	14,975	12,652	14,977	32,615	77,077	27,461	7	-	179,764
Other assets	-	-	-	-	-	-	-	5,712	5,712
Total assets	34,222	28,400	32,728	32,615	84,575	27,461	7	5,712	245,720
Liabilities and equity									
Deposits from customers	7,949	19,411	39,867	43,574	76,953	22,179	-	-	209,933
Other liabilities	-	-	-	-	-	1,500	5,950	3,302	10,752
Total capital reserves	-	-	-	-	-	-	-	25,035	25,035
Total liabilities and equity	7,949	19,411	39,867	43,574	76,953	23,679	5,950	28,337	245,720
Interest rate sensitivity gap	26,273	8,989	(7,139)	(10,959)	7,622	3,782	(5,943)	(22,625)	-

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

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

Sensitivity analysis for interest rate risk
The Group monitors the impact of changes in interest rates on the above interest rate mismatch positions using a method consistent with the FSA required reporting standard. The methodology applies weightings to the net interest rate sensitivity gap in order to quantify the impact of an adverse change in interest rates of 2.0% per annum (2018: 2.0%). The following tables set out the estimated total impact of such a change based on the mismatch at the reporting date: -

31 December 2019	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	26,273	8,989	(7,139)	(10,959)	7,622	3,782	(5,943)	(22,625)	-
Weighting	0.000	0.003	0.007	0.014	0.027	0.054	0.115	0.000	-
Cumulative	-	27	(50)	(153)	206	204	(683)	-	(449)

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

(b) Classification of financial assets and financial liabilities

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

31 December 2019	Mandatorily at FVTPL £000	Designated as at FVTPL £000	FVOCI - Debt instruments £000	FVOCI - equity instruments £000	Amortised cost £000	Total carrying amount £000
Cash and cash equivalents	-	-	-	-	13,452	13,452
Debt securities	-	-	46,792	-	-	46,792
Trading assets	19	-	-	-	-	19
Loans and advances to customers	-	-	-	-	179,764	179,764
Trade and other receivables	-	-	-	-	1,699	1,699
Amounts due from group undertakings	-	-	-	-	224	224
Total financial assets	19	-	46,792	-	195,139	241,950
Customer accounts	-	-	-	-	209,933	209,933
Creditor and accrued charges	-	-	-	-	1,945	1,945
Block creditors	-	-	-	-	-	-
Amounts due to group undertakings	-	-	-	-	531	531
Subordinated loans	-	-	-	-	7,450	7,450
Total financial liabilities	-	-	-	-	219,859	219,859

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

31 December 2018	Mandatorily at FVTPL £000	Designated as at FVTPL £000	FVOCI - Debt instruments £000	FVOCI - equity instruments £000	Amortised cost £000	Total carrying amount £000
Cash and cash equivalents	-	-	-	-	7,154	7,154
Debt securities	-	-	30,534	-	-	30,534
Trading assets	20	-	-	-	-	20
Loans and advances to customers	-	-	-	-	148,786	148,786
Trade and other receivables	-	-	-	-	1,815	1,815
Amounts due from group undertakings	-	-	-	-	307	307
Total financial assets	20	-	30,534	-	158,062	188,616
Customer accounts	-	-	-	-	158,500	158,500
Creditor and accrued charges	-	-	-	-	1,754	1,754
Block creditors	-	-	-	-	138	138
Amounts due to group undertakings	-	-	-	-	1,208	1,208
Subordinated loans	-	-	-	-	7,450	7,450
Total financial liabilities	-	-	-	-	169,050	169,050

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

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

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

During the year the Group's regulatory capital was analysed into two tiers:

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

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

	2019 £000	2018 £000
Tier 1 capital		
Ordinary share capital	10,750	9,100
Retained earnings ^	14,285	12,102
Deduction for goodwill	(448)	(448)
Deduction for intercompany receivables	(224)	(307)
Deduction for intangible assets	(563)	(601)
Total Tier 1 capital	23,800	19,846
Tier 2 capital		
Subordinated loans	7,450	7,450
Collective allowances for impairment (subject to FSA limit)	141	240
Total Tier 2 capital	7,591	7,690
Total regulatory capital	31,391	27,536
Total risk-weighted assets	184,777	152,242
Risk asset ratio		
Tier 1 capital ratio	12.9%	13.0%
Total regulatory capital expressed as a percentage of total risk-weighted assets	17.0%	18.1%

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

(d) Fair value of financial instruments

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

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

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

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

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

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

31 December 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment securities				
Government bonds	46,792	-	-	46,792
Equities	19	-	-	19
	46,811	-	-	46,811

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

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 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total Fair Values £000	Total Carrying Amount £000
Assets					
Cash and cash equivalents	-	13,452	-	13,452	13,452
Investment in associate	-	-	187	187	187
Loans and advances to customers	-	-	179,764	179,764	179,764
Amounts due from group undertakings	-	-	224	224	224
Trade and other receivables	-	-	1,699	1,699	1,699
	-	13,452	181,874	195,326	195,326
Liabilities					
Customer accounts	-	209,933	-	209,933	209,933
Amounts due to group undertakings	-	-	531	531	531
Subordinated loan	-	-	7,450	7,450	7,450
Creditors and accruals	-	-	1,945	1,945	1,945
	-	209,933	9,926	219,859	219,859

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

31 December 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total Fair Values £000	Total Carrying Amount £000
Assets					
Cash and cash equivalents	-	7,154	-	7,154	7,154
Investment in associate	-	-	66	66	66
Loans and advances to customers	-	-	148,786	148,786	148,786
Amounts due from group undertakings	-	-	307	307	307
Trade and other receivables	-	-	1,943	1,943	1,943
	-	7,154	151,102	158,256	158,256
Liabilities					
Customer accounts	-	158,500	-	158,500	158,500
Amounts due to group undertakings	-	-	-	-	-
Subordinated loan	-	-	7,450	7,450	7,450
Creditors and accruals	-	-	1,754	1,754	1,754
	-	158,500	9,204	167,704	167,704

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

5. Segmental analysis

Segmental information is presented in respect of the Group's business segments. The Board consider that the Group currently operates in one geographic segment, comprising of the Isle of Man, UK and Channel Islands. The primary format, business segments, is based on the Group's management and internal reporting structure. The Board consider that the Group operates in one product orientated segments (2018: one segment): Asset and Personal Finance (including provision of HP contracts, finance leases, personal loans, commercial loans and block discounting).

For the year ended 31 December 2019	**Asset and Personal Finance £000**
Net interest income	**17,531**
Operating income	**12,400**
Provision for impairment	**(1,900)**
Profit before tax	**2,590**
Capital expenditure	**1,739**
Total assets	**245,720**
Total liabilities	**220,685**

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

6. Interest income

	Group 2019 £000	Group 2018 £000	Bank 2019 £000	Bank 2018 £000
Interest income				
Loans and advances to customers	**21,857**	19,081	**21,598**	18,881
Total interest income calculated using the effective interest method	**21,857**	19,081	**21,598**	18,881
Other interest income	**496**	78	**496**	78
Total interest income	**22,353**	19,159	**22,094**	18,959

7. Impairment of loans and advances from customers

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

	Group 2019 £000	Group 2018 £000	Bank 2019 £000	Bank 2018 £000
Specific impairment allowances made	**2,091**	1,142	**2,548**	1,142
Reversal of allowances previously made	**(64)**	(410)	**(521)**	(410)
Total charge for specific allowances for impairment	**2,027**	732	**2,027**	732

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

	Group 2019 £000	Group 2018 £000	Bank 2019 £000	Bank 2018 £000
Collective impairment allowances made	**138**	153	**153**	153
Release of allowances previously made	**(265)**	(28)	**(280)**	(28)
Total charge for collective allowances for impairment	**(127)**	125	**(127)**	125
Total charge for allowances for impairment	**1,900**	857	**1,900**	857

8. Profit before taxation

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

		Group 2019 £000	Group 2018 £000	Bank 2019 £000	Bank 2018 £000
Directors' fees		**25**	42	**25**	42
Directors' remuneration		**394**	229	**394**	229
Directors' pensions		**21**	23	**21**	23
Directors' performance related pay		**70**	70	**70**	70
Auditor's remuneration	as Auditor current year	**91**	52	**91**	52
	non-audit services	**62**	54	**62**	54
Pension cost defined contribution scheme		**17**	17	**17**	17
Operating lease rentals for property		**100**	175	**100**	175

9. Income tax

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Current tax expense				
Current year	279	197	241	197
Changes to estimates for prior years	-	-	-	-
	279	197	241	197
Deferred tax expense				
Origination and reversal of temporary differences	50	46	50	46
Utilisation of previously recognised tax losses	-	-	-	-
Changes to estimates for prior years	-	-	-	-
	50	46	50	46
Total tax expense	329	243	291	243

Group		2019 £000		2018 £000
Reconciliation of effective tax rate				
Profit before tax on continuing operations		2,589		2,194
Tax using the Bank's domestic tax rate	10.0%	259	10.0%	219
Effect of tax rates in foreign jurisdictions	0.7%	17	-	-
Non deductible expenses	-	-	-	-
Tax exempt income	-	-	-	-
Timing differences in current year	0.1%	3	(1.0%)	(22)
Origination and reversal of temporary differences in deferred tax	1.9%	50	2.1%	46
Changes to estimates for prior years	-	-	-	-
Total tax expense	12.7%	329	11.1%	243

Bank		2019 £000		2018 £000
Reconciliation of effective tax rate				
Profit before tax on continuing operations		2,380		1,957
Tax using the Bank's domestic tax rate	10.0%	238	10.0%	227
Effect of tax rates in foreign jurisdictions	-	-	-	-
Non deductible expenses	-	-	-	-
Tax exempt income	-	-	-	-
Timing differences in current year	0.1%	3	(1.3%)	(30)
Origination and reversal of temporary differences in deferred tax	2.1%	50	2.0%	46
Changes to estimates for prior years	-	-	-	-
Total tax expense	12.2%	291	10.7%	243

The main rate of corporation tax in the Isle of Man is 0.0% (2018: 0.0%), however the profits of the Group's Isle of Man banking activities are taxed at 10.0% (2018: 10.0%). The profits of the Group's subsidiaries that are subject to UK corporation tax are taxed at a rate of 19.0% (2018: 19.0%). The value of temporary differences has been recognised as a deferred tax liability £138,000 (2018: £88,000).

10. Cash and cash equivalents

	Group 2019 £000	Group 2018 £000	Bank 2019 £000	Bank 2018 £000
Cash at bank and in hand	**13,452**	7,154	**10,900**	6,909
	13,452	7,154	**10,900**	6,909

Cash at bank includes an amount of £1,060,000 (2018: £561,000) representing receipts which are in the course of transmission.

11. Debt securities

	Group 2019 £000	Group 2018 £000	Bank 2019 £000	Bank 2018 £000
Financial assets at FVOCI:				
UK Government Treasury Bills	**44,690**	30,534	**44,690**	30,534
Floating Rate Notes	**2,102**	-	**2,102**	-
	46,792	30,534	**46,792**	30,534

Debt securities are stated at fair value and unrealised changes in the fair value are reflected in equity. There were £181,000 (2018: £136,000) realised gains and £50,000 (2018: £44,000) of unrealised gains in the year ended 31 December 2019.

12. Trading asset

The investment represents shares in a UK quoted Company, elected to be classified as a financial asset at fair value through the profit or loss. The investment is stated at market value and is classified as a level 1 investment in the IFRS 13 fair value hierarchy. The cost of the shares was £471,000. The difference between cost and market value is taken to the statement of profit or loss and other comprehensive income. Dividend income of £360,500 and £24,000 of sale proceeds have been received from this investment since it was made. The investment made a net loss of £1,000 (2018: £4,000) during the year.

13. Loans and advances to customers

Group	2019 Gross Amount £000	2019 Impairment Allowance £000	2019 Carrying Value £000	2018 Gross Amount £000	2018 Impairment Allowance £000	2018 Carrying Value £000
HP balances	**65,846**	**(1,537)**	**64,309**	59,041	(1,415)	57,626
Finance lease balances	**40,359**	**(2,125)**	**38,234**	27,238	(1,552)	25,686
Unsecured personal loans	**21,505**	**(199)**	**21,306**	14,805	(382)	14,423
Vehicle stocking plans	**1,494**	**(36)**	**1,458**	1,486	-	1,486
Wholesale funding arrangements	**23,840**	**(300)**	**23,540**	22,944	-	22,944
Block discounting	**15,693**	**(200)**	**15,493**	17,315	-	17,315
Secured commercial loans	**11,651**	**(376)**	**11,275**	2,475	(45)	2,430
Secured personal loans	**4,149**	**-**	**4,149**	6,876	-	6,876
	184,537	**(4,773)**	**179,764**	152,180	(3,394)	148,786

13. Loans and advances to customers (continued)

Bank	2019 Gross Amount £000	2019 Impairment Allowance £000	2019 Carrying Value £000	2018 Gross Amount £000	2018 Impairment Allowance £000	2018 Carrying Value £000
HP balances	65,846	(1,537)	64,309	58,626	(1,415)	57,211
Finance lease balances	40,359	(2,125)	38,234	27,156	(1,523)	25,633
Unsecured personal loans	21,505	(199)	21,306	14,805	(382)	14,423
Vehicle stocking plans	1,494	(36)	1,458	1,486	-	1,486
Wholesale funding arrangements	22,181	(300)	21,881	19,244	-	19,244
Block discounting	15,693	(200)	15,493	17,315	-	17,315
Secured commercial loans	11,651	(376)	11,275	2,475	(45)	2,430
Secured personal loans	4,149	0	4,149	6,877	-	6,877
	182,878	(4,773)	178,105	147,984	(3,365)	144,619

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

Specific allowance for impairment	Group 2019 £000	Group 2018 £000	Bank 2019 £000	Bank 2018 £000
Balance at 1 January	3,126	2,440	3,126	2,410
Specific allowance for impairment made	2,091	1,291	2,091	1,292
Release of allowances previously made	(64)	(410)	(64)	(410)
Write-offs	(521)	(195)	()	(195)
Balance at 31 December	4,632	3,126	4,632	3,097

Collective allowance for impairment	Group 2019 £000	Group 2018 £000	Bank 2019 £000	Bank 2018 £000
Balance at 1 January	268	247	268	247
Collective allowance for impairment made	153	49	153	49
Release of allowances previously made	(280)	(28)	(280)	(28)
Balance at 31 December	141	268	141	268
Total allowances for impairment	4,773	3,394	4,773	3,365

Advances on preferential terms are available to all Executive Directors, management and staff. As at 31 December 2019, £490,641 (2018: £389,005) had been lent on this basis. In the Group's ordinary course of business, advances may be made to MFG Shareholders but all such advances are made on normal commercial terms.

As detailed below, at the end of the current financial year 5 loan exposures exceeded 10.0% of the capital base of the Bank and Group, (2018: 9 loan exposures):

Exposure	Outstanding Balance 2019 £000	Outstanding Balance 2018 £000	Facility Limit 2019 £000
Block discounting facility	15,693	17,309	28,235
Wholesale funding agreement	23,840	21,423	28,119

13. Loans and advances to customers (continued)

HP and finance lease receivables

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

	Group		Bank	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Less than one year	**51,865**	42,384	**51,865**	35,811
Between one and five years	**71,124**	59,744	**71,124**	50,477
Gross investment in HP and finance lease receivables	**122,989**	102,128	**122,989**	86,288

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

	Group		Bank	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Less than one year	**44,787**	37,380	**44,787**	37,164
Between one and five years	**61,418**	48,897	**61,418**	48,616
Net investment in HP and finance lease receivables	**106,205**	86,277	**106,205**	85,780

14. Goodwill

	Group		Bank	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Acquisition of ECF Asset Finance PLC ("ECF") loan book	**348**	348	**348**	348
Acquisition adjustment ECF	**211**	211	**211**	211
Impairment ECF	**(111)**	(111)	**(111)**	(111)
	448	448	**448**	448

Goodwill impairment

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

The estimated recoverable amount in relation to the goodwill generated on the purchase of ECF Asset Finance PLC is based on forecast 3 year sales interest income (calculated at 2.0% margin), extrapolated to 10 years using a 2.0% annual increment, and then discounted using a 12% discount factor (2018: 12.0% discount factor). The sensitivity of the analysis was tested using additional discount factors of 15.0% and 20.0% on varying sales volumes. On the basis of the above reviews no impairment to goodwill has been made in the current year (2018: none).

15. Property, plant and equipment

Group	Leasehold Improvements £000	IT Equipment £000	Furniture & Equipment £000	Vehicles £000	Right-of-use assets £000	Total £000
Cost						
As at 1 January 2019	239	1,016	193	997	-	2,445
Additions	5	23	-	1,550	312	1,890
Disposals	-	-	-	-	-	-
As at 31 December 2019	244	1,039	193	2,547	312	4,335
Accumulated depreciation						
As at 1 January 2019	119	920	167	47	-	1,253
Charge for the year	22	41	4	339	104	510
Eliminated on disposals	-	-	-	-	-	-
As at 31 December 2019	141	961	171	386	104	1,763
Carrying value at 31 December 2019	103	78	22	2,161	208	2,572
Carrying value at 31 December 2018	120	96	26	950	-	1,192

16. Intangible assets

Group	Intellectual property rights £000	IT Software £000	Total £000
Cost			
As at 1 January 2019	43	1,144	1,187
Additions	11	150	161
Disposals	-	-	-
As at 31 December 2019	54	1,294	1,348
Accumulated amortisation			
As at 1 January 2019	6	580	586
Charge for year	15	184	199
Impairment	-	-	-
Disposals	-	-	-
As at 31 December 2019	21	764	785
Carrying value at 31 December 2019	33	530	563
Carrying value at 31 December 2018	37	564	601

17. Investment in and loans to and from group undertakings

Investment in subsidiaries

The Bank has the following investments: -

Name	Nature of business	31 December 2019 Holding %	Date & place of incorporation	Cost of investment 2019 £	Cost of investment 2018 £
Commercial Finance Limited	Dormant	100.0	2.4.1969#	10,000	10,000
Conister Finance & Leasing Ltd	Consumer credit finance	100.0	26.2.1996#	1	1
Waltons Finance Limited	Dormant	100.0	26.2.1996#	1	1
Manx Financial Limited	Asset finance	100.0	10.12.1999#	1,001,000	1,001,000
Conister Legal Management Services Limited	Litigation finance	100.0	13.2.2004#	1	1
Transbank Limited	Dormant	100.0	31.1.2006#	1	1
Transbank Card Services Limited	Dormant	100.0	12.6.2007^	1	1
Total investment at cost				1,011,005	1,011,005

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

Investment in associates

	Group 2019 £000	Group 2018 £000
The Business Lending Exchange ("BLX")	167	56
Beer Swaps Limited ("BSL")	20	10
	187	66

On December 2017, 40.0% of the share capital of BLX was acquired for nil consideration. The Group's share of the associate's total comprehensive income during the year was £111,000 (2018: £18,000).

On April 2018, 20% of the share capital of BSL was acquired for nil consideration. The Group's share of the associates total comprehensive income during the year was £10,000 (2018: £10,000).

Amounts due from and to Group Companies

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

Impairment of intercompany balances

No impairment was made in the current year (2018: £105,000) against intercompany balances receivable following a review of their recoverability.

18. Trade and other receivables

	Group 2019 £000	Group 2018 £000	Bank 2019 £000	Bank 2018 £000
Prepayments and other debtors	**864**	879	**798**	790
Depositors Compensation Scheme Receivable	**-**	-	**-**	-
VAT Recoverable	**835**	936	**835**	990
	1,699	1,815	**1,633**	1,780

Included in trade and other receivables is an amount of £835,000 (2017: £936,000) relating to a reclaim of VAT. The Bank, as the Group VAT registered entity, has for some time considered the VAT recovery rate being obtained by the business was neither fair nor reasonable, specifically regarding the attribution of part of the residual input tax relating to the HP business not being considered as a taxable supply. Queries have been raised with the Isle of Man Government Customs & Excise Division ("C&E"), and several reviews of the mechanics of the recovery process were undertaken by the Company's professional advisors.

The Group's position rests on the outcome of discussions with C&E which in turn will take into account the final assessment by UK Her Majesty's Revenue and Customs ("HMRC") of the impact of the European Union's ruling in favour of Volkswagen Financial Services (UK) Limited ("VWFS") vs HMRC. On the basis of the discussions and correspondence which have taken place between the Bank, its professional advisors and C&E, in addition to the VWFS ruling, the VAT recovery has moved in the year. The Directors are confident that the VAT claim will be secured.

The Bank's total exposure in relation to this matter reduced to £906,000 (2018: £1,049,000), comprising the debtor balance referred to above plus an additional £71,000 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).

19. Deposits from customers

	Group 2019 £000	Group 2018 £000	Bank 2019 £000	Bank 2018 £000
Retail customers	**203,241**	151,651	**203,241**	151,651
Corporate customers	**6,692**	6,849	**6,692**	6,849
	209,933	158,500	**209,933**	158,500

20. Creditors and accrued charges

	Group 2019 £000	Group 2018 £000	Bank 2019 £000	Bank 2018 £000
Commission creditors	**1,110**	758	**1,110**	758
Lease liability	**197**	-	**197**	-
Other creditors and accruals	**638**	996	**541**	960
	1,945	1,754	**1,848**	1,718

21. Block creditors

Block creditors consist of the following loans:

Group	2019 £000	2018 £000
Repayable 08/03/2019, interest payable at 6.5%, secured on assets of MFL	-	138
	-	138

22. Pension liability

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

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

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

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

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

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

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

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

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

Scheme amendments
There have not been any past service costs or settlements in the financial year ending 31 December 2019 (2018: none).

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

The most recent full actuarial valuation was carried out at 1 April 2016, which showed that the market value of the Scheme's assets was £1,379,000 representing 80.7% of the benefits that had accrued to members, after allowing for expected future increases in earnings. As required by IAS 19 this valuation has been updated by the actuary as at 31 December 2019.

22. Pension liability (continued)

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

Total underfunding in funded plans recognised as a liability	2019 £000	2018 £000
Fair value of plan assets	1,471	1,361
Present value of funded obligations	(2,159)	(1,944)
	(688)	(583)

Movement in the liability for defined benefit obligations	2019 £000	2018 £000
Opening defined benefit obligations at 1 January	1,945	2,029
Benefits paid by the plan	(69)	(66)
Interest on obligations	55	52
Actuarial (gain)/loss	228	(71)
Liability for defined benefit obligations at 31 December	2,159	1,944

Movement in plan assets	2019 £000	2018 £000
Opening fair value of plan assets at 1 January	1,361	1,469
Expected return on assets	38	37
Contribution by employer	41	41
Actuarial (loss)/gain	100	(121)
Benefits paid	(69)	(65)
Closing fair value of plan assets at 31 December	1,471	1,361

Expense recognised in statement of profit or loss and other comprehensive income	2019 £000	2018 £000
Interest on obligation	55	52
Interest on plan assets	(38)	(37)
Total included in personnel costs	17	15
Actual return on plan assets	142	(53)

Actuarial loss recognised in statement of other comprehensive income	2019 £000	2018 £000
Actuarial gain / (loss) on plan assets	100	(121)
Actuarial (loss) / gain on defined benefit obligations	(228)	71
	(128)	(50)

Plan assets consist of the following	2019 %	2018 %
Equity securities	50	45
Corporate bonds	18	19
Government bonds	30	28
Cash	2	4
Other	-	4
	100	100

22. Pension liability (continued)

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

	2019 %	2018 %	2017 %
Rate of increase in pension in payment:			
- service up to 5 April 1997	-	-	-
- service from 6 April 1997 to 13 September 2005	3.0	3.0	3.0
- service from 14 September 2005	2.1	2.1	2.1
Rate of increase in deferred pensions	5.0	5.0	5.0
Discount rate applied to scheme liabilities	2.9	2.6	2.6
Inflation	3.1	3.1	3.1

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 2019	**52,000,000**	**13,000**
As at 31 December 2018	52,000,000	13,000

Issued and fully paid: Ordinary shares of 25p each	Number	£000
As at 31 December 2019	**43,000,000**	**10,750**
As at 31 December 2018	36,400,000	9,100

24. Analysis of changes in financing during the year

	Group		Bank	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Opening balance	**16,688**	12,900	**16,550**	12,150
Issue of shares	**1,650**	2,400	**1,650**	2,400
Issue of subordinated loans	**-**	2,000	**-**	2,000
Debt acquired from acquisition of subsidiary	**(138)**	(612)	**-**	-
Closing balance	**18,200**	16,688	**18,200**	16,550

The closing balance is represented by £10,750,000 share capital (2018: £9,100,000), £7,450,000 subordinated loans (2018: £7,450,000) and, for the Group figures only, £nil of block creditors (2018: £138,000).

25. Regulator

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

26. Related party transactions

Cash deposits
During the year, the Bank held cash on deposit on behalf of Jim Mellon (Executive Chairman of MFG) and companies related to Jim Mellon and Denham Eke (Chief Executive Officer of MFG). Total deposits amounted to £446,366 (2018: £173,157), at normal commercial interest rates in accordance with the standard rates offered by the Bank.

Staff and commercial loans
Details of staff loans are given in note 13 to the Financial Statements.

Normal commercial loans have been made to various companies connected to Jim Mellon and Denham Eke. As at 31 December 2019, £62,746 of capital and interest was outstanding (2018: £113,328).

26. Related party transactions (continued)

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

Loan advance to EWA
On 14 December 2016, a loan advance was made to EWA by the Bank in order to provide the finance required to acquire MBL. The advance was for £700,000 at an interest rate of 8% repayable over 6 years. A negative pledge was given by EWA to not encumber any property or assets or enter into an arrangement to borrow any further monies. The balance as at 31 December 2019 was £395,172 (2018: £508,000).

Loan advance to BLX
On 11 October 2017, a £4,000,000 loan facility was made available to BLX by the Bank in order to provide the finance required to expand its operations. The facility is for 12 months, followed by a 3 year amortisation period. Interest is charged at commercial rates. At 31 December 2019, £4,000,000 (2018: £2,520,000) had been advanced to BLX.

Loan advance to BSL
On 27 April 2018, a £1,000,000 loan facility was made available to BSL by the Bank in order to provide the finance required to expand its leasing portfolio. On 10 October 2018, this facility was increased to £1,500,000. The facility is for 12 months. Interest is charged at commercial rates. During the year, the facility was increased to £2,250,000. At 31 December 2019, £2,250,000 (2018: £1,099,000) had been advanced to BSL.

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

Subordinated loans

Creation	Maturity	Interest rate	2019 £000	2018 £000
22 July 2013	22 July 2033	7.0%	**1,000**	1,000
25 October 2013	25 October 2033	7.0%	**1,000**	1,000
11 February 2014	11 February 2034	7.0%	**500**	500
27 May 2014	27 May 2034	7.0%	**500**	500
9 July 2014	9 July 2034	7.0%	**500**	500
17 September 2014	17 September 2034	7.0%	**400**	400
23 September 2016	23 September 2036	7.0%	**1,100**	1,100
12 May 2017	12 May 2037	7.0%	**450**	450
24 May 2018	24 May 2038	7.0%	**2,000**	2,000
			7,450	7,450

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

Key management personnel remuneration including Executive Directors

	2019 £000	2018 £000
Short-term employee benefits	**394**	292

27. Operating leases

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

	2019 £000	2018 £000
Less than one year	**100**	159
Between one and five years	**-**	249
Over five years	**-**	-
Total operating lease rentals payable	**100**	408

28. Subsequent events

Acquisition of subsidiary
On 28 February 2020, the Bank entered into an agreement to acquire additional ordinary shares in BSL for a cash consideration of £506,824. The Bank's shareholding in BSL will increase to 75% (31 December 2019: 20%) on completion of the purchase. Further the Bank will simplify the capital structure of BSL by repaying all issued preference shares, being £200,000, as part of the transaction.

Other
There were no other significant subsequent events that occurred after the year ended 31 December 2019.