

# Conister Bank Limited

Financial Statements

For the year ended 31 December 2012

## Directors

Don McCrickard (76)  
Non-Executive Chairman

Alan Clarke (62)\*  
Non-Executive Director

Denham Eke (61)  
Non-Executive Director

David Gibson (65)\*  
Non-Executive Director

Douglas Grant (48)  
Executive Director

Juan Kelly (42)  
Executive Director

\* Member of the Group Audit, Risk & Compliance Committee.

## Company Secretary

Lesley Crossley

## Registered Office

Clarendon House,  
Victoria Street,  
Douglas,  
Isle of Man,  
IM1 2LN.

## Advisers

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

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

Principal Bankers  
Barclays Private Clients International Limited,  
Barclays House,  
Victoria Street,  
Douglas,  
Isle of Man, IM99 1AJ.

Consulting Actuaries  
BWCI Consulting Limited,  
Albert House,  
South Esplanade,  
St Peter Port,  
Guemsey, GY1 3B.

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

The Directors submit their annual report and the audited financial statements for the year ended 31 December 2012.

**Principal activities**

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

The Company holds a banking licence under the Isle of Man Banking Act 1998 (as amended). Deposits made with the Company are covered by the 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 (2011: £nil). The proposed transfers to and from reserves are as set out in the Statement of Changes in Equity on page 8.

**Share capital**

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

**Significant shareholdings**

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

**Directors**

Details of current Directors are set out on page 1. Nick Sheard resigned on 19 March 2013.

**Directors' liability insurance**

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

**Fixed assets**

The movement in fixed assets during the year is set out in note 18 to the financial statements.

**Staff**

At 31 December 2012, there were 23 members of staff, 4 of whom were part-time (2011: 31 members of staff, 3 of whom were part-time).

**Investments in subsidiaries**

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

**Auditors**

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

By order of the Board



**Lesley Crossley**

Company Secretary  
30 April 2013

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

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

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

In preparing these financial statements, the Directors are required to:

- \* select suitable accounting policies and then apply them consistently;
- \* make judgements and estimates that are reasonable and prudent;
- \* state whether they have been prepared in accordance with International Financial Reporting Standards; and
- \* prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

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



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

*Emphasis of Matter – Reclaim of Value Added Tax*

We have audited the financial statements of Conister Bank Limited for the year ended 31 December 2012 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group Statement of Cash Flows and the Group and Parent Company Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs).

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

*Respective responsibilities of Directors and Auditors*

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the Directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

*Scope of the audit of the financial statements*

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

*Opinion on the financial statements*

In our opinion the financial statements:

- \* give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2012 and of the Group's result for the year then ended;
- \* have been properly prepared in accordance with IFRSs; and
- \* have been properly prepared in accordance with the provisions of Companies Acts 1931 to 2004.

*Matters on which we are required to report by exception*

We have nothing to report in respect of the following matters where the Companies Acts 1931 to 2004 require us to report to you if, in our opinion:

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

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 20 to the financial statements concerning the reclaim of (VAT). Included in trade and other receivables is an amount of £466,000 (2011: £684,000) with respect to a reclaim of VAT in relation to the VAT recovery rate on Hire Purchase (HP) business.

Conister Bank Limited, as the Group VAT registered agent, has for some time considered the VAT recovery rate being obtained by the business to be 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 and have raised a number of queries with the Isle of Man Government Customs and Excise Division (C&E) in this regard over a number of years.

The Group considers that the Volkswagen Financial Services Limited ("VWFS") decision in August 2011 by the First Tier Tax Tribunal (the Tribunal) of HM Revenue & Customs in relation to the basis of calculation of VAT recovery on instalment credit transactions added significant weight to the case put forward by the Bank to C&E, including the request to C&E for a revised Partial Exemption Special Method as submitted in December 2011. The proposal put forward by the Bank was that the revised method would allocate 50% of costs in respect of HP transactions to a taxable supply and 50% to an exempt supply. In addition, at this time a Voluntary Disclosure was made as a retrospective claim for input VAT under-claimed in the last 4 years.

In November 2012, it was announced that the HMRC Upper Tribunal had overturned the First-Tier Tribunal in relation to the VWFS Decision. VWFS has subsequently been given leave to appeal and this is scheduled to be heard in October 2013 ("the VWFS Appeal"). The Bank's total exposure in relation to this matter is £589,000, comprising the debtor balance referred to above of £466,000 plus an additional £123,000 VAT reclaimed under the Partial Exemption Special Method in the period from Q4 2011 to Q3 2012.

On the basis of the discussions and correspondence which have taken place between the Bank and C&E, in addition to the VWFS Appeal, the Directors are confident that the total VAT claimed of £589,000 will be secured and accordingly a debtor balance of £466,000 has been included in the financial statements for the year ended 31 December 2012 and no provision has been made for the possible repayment of the £123,000 VAT reclaimed to date, which might become repayable depending on the ultimate outcome of the VWFS decision. Due to the inherent uncertainty associated with the outcome of the VWFS Appeal and its impact on negotiations with C&E, the amount of retrospective VAT recovered and the amount of provision in respect of VAT reclaimed to date in relation to this matter may differ materially from the amounts stated in the financial statements.

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

20 April 2013

Conister Bank Limited  
Consolidated Statement of Comprehensive Income

5

For the year ended 31 December	Notes	2012 £000	2011 £000
<b>Continuing operations</b>			
Interest income	6	7,800	6,650
Interest expense		<u>(2,018)</u>	<u>(1,900)</u>
<b>Net interest income</b>		<b>5,782</b>	<b>4,750</b>
Fee and commission income		55	41
Fee and commission expense		(591)	(305)
Profit share on joint lending schemes	7	<u>(1,032)</u>	<u>(417)</u>
<b>Net fee and commission expense</b>		<b>(1,568)</b>	<b>(681)</b>
<b>Net trading income</b>		<b>4,214</b>	<b>4,069</b>
Other operating income		<u>27</u>	<u>3</u>
<b>Operating income</b>		<b>4,241</b>	<b>4,072</b>
Provision for impairment of loan assets	8	(8)	(448)
Personnel expenses		(2,079)	(1,640)
Depreciation	10,18	(193)	(185)
Other expenses		(1,986)	(2,391)
VAT receivable	20	71	684
Depositors' Compensation Scheme	11	37	-
Realised gains on available-for-sale financial instruments		28	41
Realised loss on financial assets carried at fair value		(128)	-
Impairment of goodwill		-	(111)
<b>(Loss)/profit before income tax credit</b>	10	<b>(17)</b>	<b>22</b>
Income tax recovery	12	<u>365</u>	<u>-</u>
<b>Profit for the year from continuing operations</b>		<b>348</b>	<b>22</b>
<b>Other comprehensive income</b>			
Available-for-sale gains taken to equity		-	3
Actuarial losses on defined benefit pension scheme taken to equity	23	<u>(98)</u>	<u>(19)</u>
<b>Total comprehensive income for the year attributable to owners</b>		<b>250</b>	<b>6</b>

The notes on pages 9 to 29 form part of these Financial Statements.

Conister Bank Limited  
Consolidated and Company Statements of Financial Position

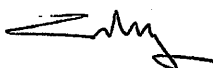
6

As at 31 December	Notes	Group		Company	
		2012 £000	2011 £000	2012 £000	2011 £000
<b>Assets</b>					
Cash and cash equivalents	14	1,782	2,282	1,773	2,254
Financial assets at a fair value through profit or loss	15	51	189	51	189
Available-for-sale financial instruments	16	12,484	10,495	12,484	10,495
Loans and advances to customers	17	58,482	49,592	58,460	49,571
Property, plant and equipment	18	654	699	635	629
Investment in group undertakings	19	-	-	10	10
Amounts due from group undertakings	19	131	1,273	912	1,637
Trade and other receivables	20	1,001	1,003	1,001	1,003
Deferred tax asset	12	365	-	365	-
Goodwill	17	448	448	448	448
<b>Total assets</b>		<b>75,398</b>	<b>65,981</b>	<b>76,139</b>	<b>66,236</b>
<b>Liabilities</b>					
Customer accounts	21	63,731	55,910	63,731	55,910
Amounts due to group undertakings		108	-	2,004	1,409
Creditors and accrued charges	22	1,777	660	1,777	660
Pension liability	23	200	79	200	79
<b>Total liabilities</b>		<b>65,816</b>	<b>56,649</b>	<b>67,712</b>	<b>58,058</b>
<b>Equity</b>					
Called up share capital	24	5,000	5,000	5,000	5,000
Retained earnings		4,582	4,332	3,427	3,178
<b>Total equity</b>		<b>9,582</b>	<b>9,332</b>	<b>8,427</b>	<b>8,178</b>
<b>Total liabilities and equity</b>		<b>75,398</b>	<b>65,981</b>	<b>76,139</b>	<b>66,236</b>

The Financial Statements were approved by the Board of Directors on 30 April 2013 and signed on their behalf by:



Don McCrickard  
Chairman



Juan Kelly  
Managing Director



Douglas Grant  
Group Finance Director

The notes on pages 9 to 29 form part of these Financial Statements.



Conister Bank Limited  
Consolidated Statement of Cash Flows

7

For the year ended 31 December	Notes	2012 £000	2011 £000
<b>RECONCILIATION OF (LOSS) / PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS</b>			
(Loss)/profit before tax on continuing activities		(17)	22
Realised loss on financial asset carried at fair value	15	128	-
Realised gains on available-for-sale financial instruments	16	(28)	(41)
(Gain)/loss on disposal of property, plant and equipment		(8)	6
Depreciation charge	10,18	193	185
Available-for-sale gains taken to equity		-	3
Actuarial loss on defined benefit pension scheme taken to equity	23	(98)	(19)
Increase in pension liability		121	19
Decrease/(Increase) in trade and other debtors		1,154	(1,500)
Increase in trade and other creditors		1,225	278
Impairment of goodwill		-	111
Net cash inflow/(outflow) from trading activities		<u>2,670</u>	<u>(936)</u>
Increase in loans and advances to customers		(8,890)	(1,044)
Increase in deposit accounts		<u>7,821</u>	<u>3,165</u>
<b>Cash inflow from operating activities</b>		<b>1,601</b>	<b>1,185</b>
<b>STATEMENT OF CASH FLOWS</b>			
<b>Cash flows from operating activities</b>			
Cash inflow from operating activities		1,601	1,185
Taxation paid		-	-
<b>Net cash inflow from operating activities</b>		<b>1,601</b>	<b>1,185</b>
<b>Cash flows from investing activities</b>			
Purchase of tangible fixed assets	18	(201)	(304)
Sale of tangible fixed assets		61	24
Purchase of available-for-sale financial instruments		(1,961)	(3,162)
Purchase of financial assets at fair value through profit and loss		-	(189)
<b>Net cash outflow from investing activities</b>		<u>(2,101)</u>	<u>(3,631)</u>
<b>Decrease in cash and cash equivalents</b>		<b>(500)</b>	<b>(2,446)</b>
<b>Included in cash flows are:</b>			
Interest received – cash amounts		8,003	6,749
Interest paid – cash amounts		<u>(2,396)</u>	<u>(2,306)</u>

The notes on pages 9 to 29 form part of these Financial Statements.

**Statement of Changes in Equity**

For the year ended 31 December Group	Share capital £000	Retained earnings £000	2012 £000	2011 £000
Balance as at 1 January	5,000	4,332	9,332	9,326
Profit for the year	-	348	348	22
Other comprehensive income	-	(98)	(98)	(16)
<b>Transactions with owners:</b>				
Dividend to equity holders	-	-	-	-
<b>Balance as at 31 December</b>	<b>5,000</b>	<b>4,582</b>	<b>9,582</b>	<b>9,332</b>

For the year ended 31 December Company	Share capital £000	Retained earnings £000	2012 £000	2011 £000
Balance at 1 January	5,000	3,178	8,178	8,183
Profit for the year	-	347	347	11
Other comprehensive income	-	(98)	(98)	(16)
<b>Transactions with owners:</b>				
Dividend to equity holders	-	-	-	-
<b>Balance as at 31 December</b>	<b>5,000</b>	<b>3,427</b>	<b>8,427</b>	<b>8,178</b>

The notes on pages 9 to 29 form part of these Financial Statements.

### 1. Reporting entity

Conister Bank Limited is a company domiciled in the Isle of Man. The consolidated financial statements of Conister Bank Limited (referred to hereafter as the "Bank") for the twelve months ended 31 December 2012 comprise the Bank and its subsidiaries (together referred to as the "Group").

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

### 2. Basis of preparation

#### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations applicable to companies reporting under IFRS. The Group has continued to apply the accounting policies used for the 2011 financial statements.

#### (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.
- \* Available-for-sale financial instruments are measured at fair value.

#### (c) Functional and presentation currency

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

#### (d) Use of estimates and judgements

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

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

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

### 3. Significant accounting policies

#### (a) Basis of consolidation of subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

#### (b) Property, plant and equipment

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

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

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

### 3. Significant accounting policies (continued)

#### (b) Property, plant and equipment (continued)

##### Depreciation

Assets are depreciated on a straight-line basis except furniture, which is written down on the reducing balance basis, so as to write off the book value over their estimated useful lives.

Equipment	4-5 years
Vehicles	4 years
Furniture	10 % per annum
Leasehold improvements	7 years

#### (c) Financial assets

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

##### *Loans and receivables*

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

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

##### *Financial assets at fair value through profit or loss*

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

##### *Available-for-sale financial instruments*

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments are carried at fair value. Dividend income is recognised in the statement of comprehensive income when the Group becomes entitled to the dividend. Other fair value changes are recognised directly in equity until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in equity are recognised in the statement of comprehensive income.

##### *Investments in subsidiary undertakings*

Investments in subsidiary undertakings in the parent company Statement of Financial Position are measured at cost less any provision for impairment.

#### (d) Impairment of financial assets

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

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

Loans and other receivables are reviewed for impairment where there are repayment arrears and doubt exists regarding recoverability. The impairment allowance is based on the level of arrears together with an assessment of the expected future cash flows, and the value of any underlying collateral (after taking into account any irrecoverable interest due). Amounts are written off when it is considered that there is no further prospect of recovery. Where past experience has indicated that over time, a particular category of financial assets has suffered a trend of impairment losses, a collective impairment allowance is made for expected losses to reflect the continuing historical trend.

### 3. Significant accounting policies (continued)

#### (e) Cash and cash equivalents

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

#### (f) Financial liabilities

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

#### (g) Employee benefits

##### *Pension obligations*

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

A defined contribution pension plan is one under which the Group pays fixed contributions into a separate fund and has no legal or constructive obligations to pay further contributions.

Defined benefit pension plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and remuneration.

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

The statement of financial position records as an asset or liability (as appropriate), the difference between the market value of the plan assets and the present value of the accrued plan liabilities. The difference between the expected return on assets and that actually achieved in the period is recognised in the statement of comprehensive income in the year in which they arise. 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 AA rated corporate bonds.

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

##### *Other obligations*

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

#### (h) Leases

##### *i) A Group company is the lessor*

##### **Finance leases and HP contracts**

When assets are subject to a finance lease or HP contract, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. HP and lease income is recognised over the term of the contract or lease reflecting a constant periodic rate of return on the net investment in the contract or lease.

Initial direct costs, which may include commissions and legal fees directly attributable to negotiating and arranging the contract or lease, are included in the measurement of the net investment of the contract or lease at inception.

##### *ii) A Group company is the lessee*

##### **Operating leases**

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



### 3. Significant accounting policies (continued)

#### (i) Deferred taxation

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

#### (j) Interest income and expense

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

#### *Effective interest rate*

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

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

#### (k) Fees and commission income

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

#### (l) Segment reporting

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

#### (m) Key sources of estimation uncertainty

Management believe that a key area of estimation and uncertainty is in respect of the impairment allowances on loans and advances to customers. Loans and advances to customers are evaluated for impairment on a basis described in note 4(a)(i), credit risk. The Group has substantial historical data upon which to base collective estimates for impairment on HP contracts, finance leases and personal loans. The litigation funding loan book has in recent years seen volatility in repayment patterns and there is therefore greater uncertainty surrounding it. The accuracy of the impairment allowances depend on how closely the estimated future cash flows mirror actual experience.

#### (n) Fiduciary deposits

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

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

**(o) New standards and interpretations not yet adopted**

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

**New/revised International Accounting Standards/International Financial Reporting Standards (IAS/IFRS)**

Presentation of items of Other Comprehensive Income (Amendments to IAS 1)	1 July 2012
Government Loans (Amendments to IFRS 1)	1 January 2013
Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	1 January 2013
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
IAS 19 Employee Benefits (amended 2011)	1 January 2013
IAS 27 Separate Financial Statements (2011)	1 January 2013
IAS 28 Investments in Associates and Joint Ventures (2011)	1 January 2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Annual Improvements to IFRS 2009-2011 Cycle – various standards	1 January 2013
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	1 January 2014
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	1 January 2014
IFRS 9 Financial Instruments	1 January 2015

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

**(p) 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. 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 lease and personal loans. The litigation funding loan book has in recent years seen volatility in repayment patterns and there is therefore greater uncertainty surrounding it. The accuracy of the impairment allowances and provisions for counter claims and legal costs depend on how closely the estimated future cash flows mirror actual experience.

#### 4. Risk and capital management

##### (a) Risk management

###### Introduction and overview

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

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

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

###### Risk management framework

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

The Board has established the Executive Risk Committee (ERC) which reports to the Audit Risk and Compliance Committee (ARCC) and is responsible for developing and monitoring Group risk management policies in their specified areas. Operational responsibility for assets and liabilities management is delegated to Executive Directors and management through the Assets and Liabilities Committee (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, premium finance loans, litigation funding loans, 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.

###### Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Credit Committee (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 Board of Directors 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 (for asset and personal finance) or the operating model and procedures (for premium finance);

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

**(a) Risk management (continued)**

**i) Credit risk (continued)**

- Limiting concentrations of exposure to counterparties, geographies and industries (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:

	2012	2011
	£000	£000
<b>Loans and advances to customers</b>		
<b>Carrying value</b>	<b>58,482</b>	<b>49,525</b>
Individually impaired		
Grade A	-	189
Grade B	-	29
Grade C	<b>5,423</b>	<b>5,954</b>
Gross value	<b>5,423</b>	6,172
Allowance for impairment	<b>(4,151)</b>	<b>(4,305)</b>
<b>Carrying value</b>	<b>1,272</b>	<b>1,867</b>
<b>Collective allowance for impairment</b>	<b>(162)</b>	<b>(224)</b>
Past due but not impaired		
Less than 1 month	<b>819</b>	1,996
1 month but less than 2 months	<b>467</b>	849
2 months but less than 3 months	<b>555</b>	207
3 months and over	<b>478</b>	<b>334</b>
<b>Carrying value</b>	<b>2,319</b>	<b>3,386</b>
<b>Neither past due nor impaired</b>	<b>55,053</b>	<b>44,496</b>

**Impaired loans**

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

**Past due but not impaired loans**

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

**Allowances for impairment**

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss allowance that relates to individually significant exposures, and a collective loan loss allowance, which is established for the Group's assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. The collective loan loss allowance is based on historical experience, the current economic environment and an assessment of its impact on loan collectability. Guidelines regarding specific impairment allowances are laid out in the debt recovery process manual which is reviewed annually. During the year the Group changed its policy to no longer provide for loan accounts less than two months in arrears, unless there is strong evidence to suggest a provision would be required. This change in policy accounts for the increase in the past due but not impaired balances reported in the note above.

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

**(a) Risk management (continued)**

**i) Credit risk (continued)**

**Write-off policy**

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

**Collateral**

The Group holds collateral in the form of the underlying assets (typically private and commercial vehicles, plant and machinery) as security for HP, finance leases, vehicle stocking plans, block discounting and secured commercial loan balances, which are sub-categories of loans and advances to customers. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. At the time of granting credit within the sub-categories listed above, the loan balances due are secured over the underlying assets held as collateral.

**Concentration of credit risk**

**Geographical**

Lending is restricted to individuals and businesses with United Kingdom or Isle of Man addresses.

**Segmental**

The Group is exposed to credit risk with regard to customer loan accounts, comprising HP and finance lease balances, premium finance balances, litigation funding balances, unsecured personal loans and vehicle stocking plan loans.

**ii) Liquidity risk**

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

**Management of liquidity risk**

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses various methods, including forecasting of cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source. Maturity mismatches between lending and funding are managed within internal risk policy limits.

**Minimum liquidity**

The Isle of Man Financial Supervision Commission (FSC) requires that the Group should be able to meet its obligations for a period of at least one month. In order to meet this requirement, the Group measures and manages its cash flow commitments, and maintains its liquid balances in a diversified portfolio of short-term bank balances and short dated UK Government Treasury Bills. Bank balances are only held with financial institutions approved by the Board of Directors and which meet the requirements of the FSC.

**Measurement of liquidity risk**

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

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

4. Risk and capital management (continued)

(a) Risk management (continued)

ii) Liquidity risk (continued)

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

31 December 2012	Sight to 8 days	> 8 days to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 1 year	>1 year to 3 years	>3 years to 5 years	> 5 years	Total
Group	£000	£000	£000	£000	£000	£000	£000	£000	£000
Customer accounts	1,762	2,164	3,017	5,081	20,818	22,765	11,889	-	67,496
Other liabilities	43	665	107	78	156	570	466	-	2,085
<b>Total liabilities</b>	<b>1,805</b>	<b>2,829</b>	<b>3,124</b>	<b>5,159</b>	<b>20,974</b>	<b>23,335</b>	<b>12,355</b>	<b>-</b>	<b>69,581</b>

31 December 2011	Sight to 8 days	> 8 days to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 1 year	>1 year to 3 years	>3 years to 5 years	> 5 years	Total
Group	£000	£000	£000	£000	£000	£000	£000	£000	£000
Customer accounts	1,479	2,094	1,986	5,081	20,818	21,765	11,889	-	65,112
Other liabilities	660	-	-	-	-	-	-	79	739
<b>Total liabilities</b>	<b>2,139</b>	<b>2,094</b>	<b>1,986</b>	<b>5,081</b>	<b>20,818</b>	<b>21,765</b>	<b>11,889</b>	<b>79</b>	<b>65,851</b>

Maturity of assets and liabilities as at the statement of financial position date

31 December 2012	Sight to 8 days	> 8 days to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 1 year	>1 year to 3 years	>3 years to 5 years	> 5 years	Total
Group	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Assets</b>									
Cash and cash equivalents	1,782	-	-	-	-	-	-	-	1,782
Available-for-sale financial instruments	-	-	5,497	-	6,987	-	-	-	12,484
Customer accounts receivable	1,307	3,229	3,623	5,368	9,343	29,389	6,223	-	58,482
Other assets	-	-	-	-	90	179	179	2,202	2,650
<b>Total assets</b>	<b>3,089</b>	<b>3,229</b>	<b>9,120</b>	<b>5,368</b>	<b>16,420</b>	<b>29,568</b>	<b>6,402</b>	<b>2,202</b>	<b>75,398</b>

<b>Liabilities</b>									
Customer accounts	1,762	2,161	3,004	5,023	20,375	21,230	10,176	-	63,731
Other liabilities	43	665	107	78	156	570	466	-	2,085
<b>Total liabilities</b>	<b>1,805</b>	<b>2,826</b>	<b>3,111</b>	<b>5,101</b>	<b>20,531</b>	<b>21,800</b>	<b>10,642</b>	<b>-</b>	<b>65,816</b>

31 December 2011	Sight to 8 days	> 8 days to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 1 year	>1 year to 3 years	>3 years to 5 years	> 5 years	Total
Group	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Assets</b>									
Cash and cash equivalents	2,282	-	-	-	-	-	-	-	2,282
Available-for-sale financial instruments	1,000	9,495	-	-	-	-	-	-	10,495
Customer accounts receivable	2,389	1,226	3,274	5,103	8,720	23,532	5,348	-	49,592
Other assets	-	-	-	-	90	179	179	3,164	3,612
<b>Total assets</b>	<b>5,671</b>	<b>10,721</b>	<b>3,274</b>	<b>5,103</b>	<b>8,810</b>	<b>23,711</b>	<b>5,527</b>	<b>3,164</b>	<b>65,981</b>

<b>Liabilities</b>									
Customer accounts	1,478	2,091	1,978	4,130	19,179	18,585	8,469	-	55,910
Other liabilities	660	-	-	-	-	-	-	79	739
<b>Total liabilities</b>	<b>2,138</b>	<b>2,091</b>	<b>1,978</b>	<b>4,130</b>	<b>19,179</b>	<b>18,585</b>	<b>8,469</b>	<b>79</b>	<b>56,649</b>

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

**(a) Risk management (continued)**

**iii) Operational risk**

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

**iv) Market risk**

Market risk is the risk that changes in the level of interest rates, changes in the rate of exchange between currencies or changes in the price of securities and other financial contracts (including derivatives) will have an adverse financial impact. The primary market risk within the Group's activities is interest rate risk. As at 31 December 2012 and 2011, the fair value of the financial statements as presented in the interest risk table below are considered to be equal to their carrying amounts.

The Group is also exposed to market price risk through holding one equity investment, stated at a market value. Given the size of this holding, £51,000 at 31 December 2012 (2011: £189,000) the potential impact on the results of the Group is relatively small and no sensitivity analysis has been provided for market risk.

**v) 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 of Directors. 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 2012	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
<b>Assets</b>									
Cash and cash equivalents	1,782	-	-	-	-	-	-	-	1,782
Available-for- sale financial instruments	-	5,497	-	6,987	-	-	-	-	12,484
Customer accounts receivable	4,536	3,623	5,368	9,343	29,389	6,223	-	-	58,482
Other assets	-	-	-	-	-	-	-	2,650	2,650
<b>Total assets</b>	<b>6,318</b>	<b>9,120</b>	<b>5,368</b>	<b>16,330</b>	<b>29,389</b>	<b>6,223</b>	<b>-</b>	<b>2,650</b>	<b>75,398</b>
<b>Liabilities</b>									
Customer accounts	3,923	3,004	5,023	20,375	21,230	10,176	-	-	63,731
Other liabilities	-	-	-	-	-	-	-	2,085	2,085
Total capital reserves	-	-	-	-	-	-	-	9,582	9,582
<b>Total liabilities and equity</b>	<b>3,923</b>	<b>3,004</b>	<b>5,023</b>	<b>20,375</b>	<b>21,230</b>	<b>10,176</b>	<b>-</b>	<b>11,667</b>	<b>75,398</b>
<b>Interest rate sensitivity gap</b>	<b>2,395</b>	<b>6,116</b>	<b>345</b>	<b>(4,045)</b>	<b>8,159</b>	<b>(3,953)</b>	<b>-</b>	<b>(9,017)</b>	<b>-</b>

4. Risk and capital management (continued)

(a) Risk management (continued)

v) Interest rate risk (continued)

31 December 2011	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
<b>Assets</b>									
Cash and cash equivalents	2,282	-	-	-	-	-	-	-	2,282
Available-for- sale financial instruments	10,495	-	-	-	-	-	-	-	10,495
Customer accounts receivable	3,615	3,274	5,103	8,720	23,532	5,348	-	-	49,592
Other assets	-	-	-	-	-	-	-	3,612	3,612
<b>Total assets</b>	<b>16,392</b>	<b>3,274</b>	<b>5,103</b>	<b>8,720</b>	<b>23,532</b>	<b>5,348</b>	<b>-</b>	<b>3,612</b>	<b>65,981</b>
<b>Liabilities</b>									
Customer accounts	3,569	1,978	4,130	19,179	18,585	8,469	-	-	55,910
Other liabilities	-	-	-	-	-	-	-	739	739
Total capital reserves	-	-	-	-	-	-	-	9,332	9,332
<b>Total liabilities and equity</b>	<b>3,569</b>	<b>1,978</b>	<b>4,130</b>	<b>19,179</b>	<b>18,585</b>	<b>8,469</b>	<b>-</b>	<b>10,071</b>	<b>65,981</b>
<b>Interest rate sensitivity gap</b>	<b>12,823</b>	<b>1,296</b>	<b>973</b>	<b>(10,459)</b>	<b>4,947</b>	<b>(3,121)</b>	<b>-</b>	<b>(6,459)</b>	<b>-</b>

**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 FSC 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% per annum. The following tables set out the estimated total impact of such a change based on the mismatch at the statement of financial position date.

31 December 2012	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
<b>Interest rate sensitivity gap</b>	<b>2,395</b>	<b>6,116</b>	<b>345</b>	<b>(4,045)</b>	<b>8,159</b>	<b>(3,953)</b>	<b>-</b>	<b>(9,017)</b>	<b>-</b>
<b>Weighting</b>	<b>0.000</b>	<b>0.003</b>	<b>0.007</b>	<b>0.014</b>	<b>0.027</b>	<b>0.054</b>	<b>0.115</b>	<b>0.000</b>	<b>-</b>
<b>Cumulative</b>	<b>-</b>	<b>18</b>	<b>2</b>	<b>(57)</b>	<b>220</b>	<b>(213)</b>	<b>-</b>	<b>-</b>	<b>(30)</b>

31 December 2011	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
<b>Interest rate sensitivity gap</b>	<b>12,823</b>	<b>1,296</b>	<b>973</b>	<b>(10,459)</b>	<b>4,947</b>	<b>(3,121)</b>	<b>-</b>	<b>(6,459)</b>	<b>-</b>
<b>Weighting</b>	<b>0.000</b>	<b>0.003</b>	<b>0.007</b>	<b>0.014</b>	<b>0.027</b>	<b>0.054</b>	<b>0.115</b>	<b>0.000</b>	<b>-</b>
<b>Cumulative</b>	<b>-</b>	<b>4</b>	<b>7</b>	<b>(146)</b>	<b>134</b>	<b>(169)</b>	<b>-</b>	<b>-</b>	<b>(170)</b>



4. Risk and capital management (continued)

(b) Capital management

Regulatory capital

The Group considers capital to comprise share capital, reserves and subordinated loans. Capital is deployed by the Board of Directors to meet the commercial objectives of the Group, whilst meeting regulatory requirements. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor, depositor and market confidence and to sustain future development of the business. In implementing current capital requirements the FSC requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. This requirement has been adhered to throughout the year. The Group's regulatory capital is analysed into two tiers:

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

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

	2012 £000	2011 £000
<b>Tier 1 capital</b>		
Ordinary share capital	5,000	5,000
Retained earnings <sup>^</sup>	4,574	<sup>^</sup> 4,306
<b>Total Tier 1 capital</b>	<b>9,574</b>	<b>9,306</b>
<b>Tier 2 capital</b>		
Collective allowances for impairment (subject to FSC limit)	162	224
<b>Total Tier 2 capital</b>	<b>162</b>	<b>224</b>
Deduction for intercompany receivables	(22)	(1,272)
Deduction for goodwill	(448)	(448)
<b>Total regulatory capital</b>	<b>9,266</b>	<b>7,810</b>
<b>Total risk-weighted assets</b>	<b>54,463</b>	<b>47,384</b>
<b>Risk asset ratio</b>		
Total regulatory capital expressed as a percentage of total risk-weighted assets	17%	16%

<sup>^</sup> - Retained earnings used in the risk asset ratio calculation are different to that shown on the statement of financial position due to the classification of certain items within the calculation as prescribed by the FSC. The main adjustment relates to profit for the year which cannot be recognised as capital until the accounts have been audited.

5. Segmental analysis

Segmental information is presented in respect of the Group's business segments. The Directors consider that the Group currently operates in one geographic segment, the Isle of Man and UK. The primary format, business segments, is based on the Group's management and internal reporting structure. The Directors consider that the Group operates in two product orientated segments: Asset and Personal Finance (including provision of HP contracts, finance leases and personal loans) and Litigation Finance. The Group ceased to provide new Litigation Finance in June 2007.

For the year ended 31 December 2012	Asset and Personal Finance £000	Litigation Finance £000	Total 2012 £000
Net interest income	5,782	-	5,782
Operating income	4,241	-	4,241
Provision for impairment	(149)	141	(8)
<b>(Loss)/profit before income tax</b>	<b>(158)</b>	<b>141</b>	<b>(17)</b>
<b>Capital expenditure</b>	<b>201</b>	<b>-</b>	<b>201</b>
<b>Total assets</b>	<b>74,499</b>	<b>899</b>	<b>75,398</b>
<b>Total liabilities</b>	<b>64,917</b>	<b>899</b>	<b>65,816</b>

5. Segmental analysis (continued)

For the year ended 31 December 2011	Asset and Personal Finance £000	Litigation Finance £000	Total 2011 £000
Net interest income	4,407	343	4,750
Operating income	3,729	343	4,072
Provision for impairment	(237)	(211)	(448)
Profit/(loss) before income tax	(111)	133	22
Capital expenditure	304	-	304
Total assets	64,844	1,137	65,981
Total liabilities	55,512	1,137	56,649

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

6. Interest income

Interest receivable and similar income represents charges and interest on finance and leasing agreements attributable to the year after adjusting for early settlements, income on litigation funding receivables and interest on bank balances.

7. Profit share on joint lending schemes

	2012 £000	2011 £000
Scheme one	1,032	417
	1,032	417

On 3 February 2010, a joint lending scheme was entered into by the Bank. The development of this relationship has led to interest income on loan advances funded by the Bank, being divided up between the parties in a profit sharing ratio. As at 31 December 2012 advances had grown by £8.7m to £18.9m. The amount by which the other party has received in profits shared is analysed above.

8. Allowances for impairment

The charge in respect of specific allowances for impairment comprises:

	2012 £000	2011 £000
Specific impairment allowances made	466	781
Reversal of allowances previously made	(396)	(63)
<b>Total charge for specific allowances for impairment</b>	<b>70</b>	<b>718</b>

The credit in respect of collective allowances for impairment comprises:

	2012 £000	2011 £000
Collective impairment allowances made	75	124
Release of allowances previously made	(137)	(394)
<b>Total credit for collective allowances for impairment</b>	<b>(62)</b>	<b>(270)</b>
<b>Total charge for allowances for impairment</b>	<b>8</b>	<b>448</b>

9. Re-structure costs

Re-structure costs in prior year comprised of redundancy costs incurred when the Group closed two branch offices in the UK and reorganised operational processes in the Isle of Man.

**10. Loss before taxation**

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

	2012 £000	2011 £000
Depreciation	193	185
Loss / (profit) on sale of fixed assets	8	(6)
Directors' fees	135	50
Directors' remuneration	376	115
Directors' pensions	35	7
Directors' bonuses	-	-
Auditors' remuneration	59	31
	as Auditors current year non-audit services	133
Pension cost defined contribution scheme	35	82
Operating lease rentals for property	103	103

**11. Depositors' Compensation Scheme**

	2012 £000	2011 £000
Provision in respect of Kaupthing Singer & Friedlander (Isle of Man) Limited	37	-
	37	-

On 27 May 2009, the Isle of Man Government Depositors' Compensation Scheme ("the Scheme") was activated in connection with the liquidation of Kaupthing Singer & Friedlander (Isle of Man) Limited. Three payments of £73,880 were made in to the scheme. In 2011, a payment was made which was expected to be repaid, therefore no charge was made to prior year's Consolidated Statement of Comprehensive Income. In the current year, a partial repayment from the Financial Supervision Commission of £133,506 from the scheme released a £36,940 credit to the Consolidated Statement of Comprehensive Income. Further repayments from the scheme are anticipated.

**12. Income tax recovery**

The main rate of income tax in the Isle of Man is 0% (2011: 0%), however the profits of the Group's Manx banking activities are taxed at 10% (2011: 10%). The profits of the Group's subsidiaries that are subject to UK corporation tax are taxed at a rate of 26.5% (2011: 26.5%).

The Group had sufficient tax losses brought forward to offset any profits in income streams that are taxable at a rate above 0% and therefore no provision is required.

The value of tax losses carried forward is £365,000 (2011: £nil) which has been recognised as a deferred tax asset in the current year.

**13. Company profit**

Under Section 3(5)(b)(ii) of the Companies Act 1982 the Company is exempt from the requirement to present its own statement of comprehensive income. The profit on ordinary activities after taxation of the Company is £347,000 (2011: £22,000).

**14. Cash and cash equivalents**

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Cash at bank and in hand	1,736	1,736	1,727	1,708
Short term deposits	46	546	46	546
	1,782	2,282	1,773	2,254

Cash at bank includes an amount of £18,809 (2011: £8,949) representing cheques issued in the course of transmission. The remaining maturity of short term deposits is as follows:

14. Cash and cash equivalents (continued)

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Less than 8 days	46	546	46	546

15. Financial assets at fair value through profit or loss

The investment represents shares in Billing Services Group PLC, a UK quoted company, which was 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 7 fair value hierarchy. The cost of the shares was £471,000. The difference between cost and market value is taken to the statement of comprehensive income.

On the 1 July 2010, this investment was transferred to Manx Financial Group PLC (MFG), the company's parent, for £319,000. On 30 December 2011 MFG transferred this investment back to the company in part settlement of amounts owed to the company by MFG at market value of £189,000.

16. Available-for-sale financial instruments

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
UK Government Treasury Bills	12,484	10,495	12,484	10,495
	12,484	10,495	12,484	10,495

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

17. Loans and advances to customers

Group	2012			2011		
	Gross Amount £000	Impairment Allowance £000	Carrying Value £000	Gross Amount £000	Impairment Allowance £000	Carrying Value £000
HP balances	37,942	(883)	37,059	33,878	(624)	33,254
Finance lease balances	6,543	(696)	5,847	5,640	(628)	5,012
Litigation funding	2,526	(1,627)	899	2,972	(1,835)	1,137
Unsecured personal loans	3,913	(362)	3,551	3,399	(434)	2,965
Vehicle stocking plans	1,404	-	1,404	1,397	-	1,397
Block discounting	4,601	-	4,601	3,724	(9)	3,715
Secured commercial loans	5,866	(745)	5,121	3,112	(1,000)	2,112
	62,795	(4,313)	58,482	54,123	(4,530)	49,592

Company	2012			2011		
	Gross Amount £000	Impairment Allowance £000	Carrying Value £000	Gross Amount £000	Impairment Allowance £000	Carrying Value £000
HP balances	37,942	(883)	37,059	33,878	(624)	33,254
Finance lease balances	6,543	(696)	5,847	5,640	(628)	5,012
Litigation funding	2,329	(1,452)	877	2,776	(1,660)	1,116
Unsecured personal loans	3,913	(362)	3,551	3,399	(434)	2,965
Vehicle stocking plans	1,404	-	1,404	1,397	-	1,397
Block discounting	4,601	-	4,601	3,724	(9)	3,715
Secured commercial loans	5,866	(745)	5,121	3,112	(1,000)	2,112
	62,598	(4,138)	58,460	53,925	(4,355)	49,571

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

17. Loans and advances to customers (continued)

	Group		Company	
	2012	2011	2012	2011
<b>Specific allowance for impairment</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 January	4,305	4,163	4,130	3,988
Charge/(credit) for allowances made	70	791	70	791
Write-offs	(224)	(649)	(224)	(649)
<b>Balance at 31 December</b>	<b>4,151</b>	<b>4,305</b>	<b>3,976</b>	<b>4,130</b>

	Group		Company	
	2012	2011	2012	2011
<b>Collective allowance for impairment</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 January	225	490	225	490
Collective allowance for impairment made	75	129	75	129
Release of allowances previously made	(138)	(394)	(138)	(394)
<b>Balance at 31 December</b>	<b>162</b>	<b>225</b>	<b>162</b>	<b>225</b>
<b>Total allowances for impairment</b>	<b>4,313</b>	<b>4,530</b>	<b>4,138</b>	<b>4,355</b>

Advances on preferential terms are available to all Directors, management and staff. As at 31 December 2012, £133,740 (2011: £166,710) was lent on this basis. In the Group's ordinary course of business, advances may be made to Shareholders but all such advances are made on normal commercial terms.

At the end of the current financial year one loan exposure exceeded 10% of the capital base of the Company and Group, see details below (2011: three loan exposures):

Exposure	Outstanding balance		Facility Limit
	2012	2011	2012
	£000	£000	£000
Finance lease	-	1,037	N/A
Secured commercial loan	4,176	1,849	5,000
Block discounting facility	-	767	1,000

**HP and finance lease receivables**

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

	2012	2011
	£000	£000
<b>Gross investment in HP and finance lease receivables</b>		
Less than one year	21,828	18,503
Between one and five years	30,520	27,091
	52,348	45,594
Unearned future income on finance leases	(7,863)	(6,786)
<b>Investment in HP and finance lease receivables net of unearned income</b>	<b>44,485</b>	<b>38,808</b>

	2012	2011
	£000	£000
<b>The investment in HP and finance lease receivables net of unearned income comprises</b>		
Less than one year	18,441	15,532
Between one and five years	26,044	23,276
<b>Net investment in HP and finance lease receivables</b>	<b>44,485</b>	<b>38,808</b>

17. Loans and advances to customers (continued)

Goodwill on acquired ECF Asset Finance PLC loan book

Goodwill	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Acquisition of ECF Asset Finance PLC loan book	348	348	348	348
Acquisition adjustment ECF	211	211	211	211
Impairment ECF	(111)	(111)	(111)	(111)
	<u>448</u>	<u>448</u>	<u>448</u>	<u>448</u>

Following a detailed review of the acquired ECF loan book at 30 June 2011 an adjustment was made to the fair value of the assets acquired under the provisions of IFRS 3. A reduction of £211,000 was made to the value of certain loan assets where evidence from the review identified that the recoverable value assumed at the date of acquisition was overstated. Goodwill in relation to this acquisition was reviewed for impairment based on anticipated future business and an impairment provision of £111,000 was made at 30 June 2011.

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 forecasted 3 year sales interest income (calculated at 5% margin), extrapolated to 10 years using a 5% annual increment, and then discounted using a 12% discount factor (2011: 10% discount factor). The sensitivity of the analysis was tested using additional discount factors of 15% and 20% and varying sales volumes.

On the basis of the above reviews no impairment to goodwill has been made in the current year other than that noted separately above.

18. Property, plant and equipment

Group	Leasehold Improvements £000	IT Equipment £000	Furniture & Equipment £000	Vehicles £000	Total £000
<b>Cost</b>					
As at 1 January 2012	170	780	152	160	1,262
Additions	10	144	47	-	201
Disposals	-	-	(18)	(111)	(129)
<b>As at 31 December 2012</b>	<b>180</b>	<b>924</b>	<b>181</b>	<b>49</b>	<b>1,334</b>
<b>Depreciation</b>					
As at 1 January 2012	2	363	109	89	563
Provided in the year	5	161	18	9	193
Eliminated on disposals	-	-	(9)	(67)	(76)
<b>As at 31 December 2012</b>	<b>7</b>	<b>524</b>	<b>118</b>	<b>31</b>	<b>680</b>
<b>Carrying value at 31 December 2012</b>	<b>173</b>	<b>400</b>	<b>63</b>	<b>18</b>	<b>654</b>
Carrying value at 31 December 2011	168	417	43	71	699

Fixed assets with a net book value of £18,000 (2011: £71,000) are held by Conister Finance & Leasing Ltd. These comprise motor vehicles of £18,000 (2011: £71,000). The depreciation charge in respect of these assets was £9,000 (2011: £25,000).



### 19. Investment in and loans to group undertakings

The Company has the following investments:

Name	Nature of business	31 December 2012 Holding %	Date & place of incorporation	Cost of investment 2012 £	Cost of investment 2011 £
Commercial Finance Limited	Consumer credit finance	100	2.4.1969#	10,000	10,000
Conister Finance & Leasing Limited	Consumer credit finance	100	26.2.1996#	1	1
Transbank Limited	Dormant	100	31.1.2006#	1	1
Conister Legal Management Services Limited	Litigation finance	100	13.2.2004#	1	1
Conister Limited	Consumer credit finance	100	10.12.1999#	1	1
Waltons Finance Limited	Consumer credit	100	26.2.1996#	1	1
Transbank Card Services Limited	Dormant	100	12.6.2007^	1	1
<b>Total investment at cost</b>				<b>10,006</b>	<b>10,006</b>

# Subsidiary was incorporated within the Isle of Man.

^ Subsidiary was incorporated within the United Kingdom.

Loans to group companies are unsecured, interest-free and repayable on demand.

### 20. Trade and other receivables

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Trade debtors	3	-	3	-
Prepayments and other debtors	532	319	532	319
VAT Recoverable	466	684	466	684
	<b>1,001</b>	<b>1,003</b>	<b>1,001</b>	<b>1,003</b>

Included in trade and other receivables is an amount of £466,000 (2011: £684,000) relating to a reclaim of value added tax (VAT).

Conister Bank Limited (the 'Bank'), as the Group VAT registered entity, has for some time considered the VAT recovery rate being obtained by the business was neither fair nor reasonable, specifically regarding the attribution of part of the residual input tax relating to the HP business not being considered as a taxable supply. Queries have been raised with the Isle of Man Government Customs & Excise Division (C&E), and several reviews of the mechanics of the recovery process were undertaken by the Company's professional advisers.

The decision of the first-tier Tax Tribunal released 18 August 2011 in respect of Volkswagen Financial Services (UK) Limited v HM Revenue & Customs (TC01401) ("VWFS Decision") assed significant weight to the case put forward by the Bank and a request for a revised Partial Exemption Special Method was submitted December 2011. The proposal put forward by the Bank is that the revised method would allocate 50% of costs in respect of HP transactions to a taxable supply and 50% to an exempt supply. In addition at this time a Voluntary Disclosure was made as a retrospective claim for input VAT under-claimed in the last four years. HM Revenue & Customs appealed the decision and won and VWFS are counter appealing.

Discussions regarding the retrospective claim are ongoing, however, there has been an acknowledgement that the old partial exemption special method was neither fair nor reasonable, and the review Partial Exemption Special Method has been agreed to be not unreasonable but is unlikely to be agreed prior to the appeal being heard. C&E have also confirmed that they are happy for this method to have been applied in Quarter four 2011, up until quarter three 2012, but thereafter reverting to the original method. The additional amount of VAT claimed under the revised method was £123,000. Therefore the total exposure to the Group is £589,000.

On the basis of the discussions and correspondence with C&E, in addition to the VWFS Decision, the Directors believe that the VAT claimed retrospectively will be secured.

**21. Customer accounts**

Group and Company	2012 £000	2011 £000
Retail customers	61,647	54,569
Corporate customers	2,084	1,341
	<b>63,731</b>	<b>55,910</b>

**Fiduciary deposits**

At 31 December 2012 the Bank acted as agent bank to a number of customers, for balances totalling £19.9m (2011: £19m). The Bank invests these customer assets with third party banks on their behalf and in return for this service receives a fee. These balances are not included within the statement of financial position.

**22. Creditors and accrued charges**

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Creditors and accruals	1,777	504	1,777	502
Short term employee benefits	-	56	-	56
VAT payable	-	100	-	102
	<b>1,777</b>	<b>660</b>	<b>1,777</b>	<b>660</b>

**23. Pension liability**

The Group operates a funded defined benefit pension scheme, the Conister Trust Pension and Life Assurance Scheme (the Scheme), providing benefits to members based on final pensionable pay. The Scheme was closed to new entrants on 31 March 1997. Contributions to the Scheme are determined by a firm of independent actuaries employed by the Trustees.

The most recent full actuarial valuation was carried out at 1 April 2010, which showed that the market value of the Scheme's assets was £1,346,464 representing 97.7% 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 2012.

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

	2012 %	2011 %	2010 %	2009 %	2008 %
Rate of increase in salaries	N/A	N/A	3.70	3.80	2.80
Rate of increase in pension in payment:					
- service up to 5 April 1997	-	-	-	-	-
- service from 6 April 1997 to 13 September 2005	2.30	2.90	3.40	3.50	2.70
- service from 14 September 2005	1.80	2.10	2.20	2.30	2.00
Discount rate applied to scheme liabilities	4.90	5.70	5.70	5.70	6.70
Return on assets	2.90	3.10	5.20	5.95	6.60

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.

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

	2012 £000	2011 £000
<b>Total underfunding in funded plans recognised as a liability</b>	<b>£000</b>	<b>£000</b>
Fair value of plan assets	1,227	1,192
Present value of funded obligations	(1,427)	(1,271)
	<b>(200)</b>	<b>(79)</b>

<b>Plan assets consist of the following</b>	2012 %	2011 %
Equity securities	33	24
Corporate bonds	39	20
Government bonds	22	18
Cash	6	38
Other	-	-
	<b>100</b>	<b>100</b>



23. Pension liability (continued)

	2012 £000	2011 £000
<b>Movement in the liability for defined benefit obligations</b>		
Opening defined benefit obligations at 1 January	1,271	1,417
Benefits paid by the plan	(57)	(200)
Interest on obligations	72	75
Actuarial loss/(gain)	141	(21)
<b>Liability for defined benefit obligations at 31 December</b>	<b>1,427</b>	<b>1,271</b>

	2012 £000	2011 £000
<b>Movement in plan assets</b>		
Opening fair value of plan assets at 1 January	1,192	1,357
Expected return on assets	39	65
Contribution by employer	10	10
Actuarial gain/(loss)	43	(40)
Benefits paid	(57)	(200)
<b>Closing fair value of plan assets at 31 December</b>	<b>1,227</b>	<b>1,192</b>

	2012 £000	2011 £000
<b>Expense recognised in statement of comprehensive income</b>		
Interest on obligation	72	75
Expected return on plan assets	(37)	(65)
<b>Total included in personnel costs</b>	<b>35</b>	<b>10</b>
<b>Actual return on plan assets</b>	<b>(93)</b>	<b>(25)</b>

	2012 £000	2011 £000
<b>Income recognised in statement of comprehensive income</b>		
Actuarial gain/(loss) on plan assets	43	(40)
Actuarial (loss)/gain on defined benefit obligations	(141)	21
	<b>(98)</b>	<b>(19)</b>

24. Called up share capital

Authorised: Ordinary shares of 25p each	Number	£000
As at 31 December 2012	52,000,000	13,000
As at 31 December 2011	52,000,000	13,000
<b>Issued and fully paid: Ordinary shares of 25p each</b>	<b>Number</b>	<b>£000</b>
As at 31 December 2012	20,000,000	5,000
As at 31 December 2011	20,000,000	5,000

25. Analysis of changes in financing during the year

	2012 £000	2011 £000
<b>Group and Company</b>		
Opening balance	5,000	5,000
<b>Closing balance</b>	<b>5,000</b>	<b>5,000</b>

The closing balance is represented by £5,000,000 share capital (2011: £5,000,000).

**26. Regulator**

The Group is licensed to undertake banking activities by the Isle of Man Government Financial Supervision Commission.

**27. Related party transactions**

**Cash deposits**

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

Jim Mellon (Executive Chairman of MFG)

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

Normal commercial interest rates in accordance with the standard rates offered by the Bank are paid on these deposits.

**Staff loans**

Details of staff loans are given in note 17 to the financial statements.

**Key management personnel (including one Executive Director) compensation**

	2012 £000	2011 £000
Short-term employee benefits	397	105

**28. Operating leases**

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

	2012 £000	2011 £000
Less than one year	123	71
Between one and five years	493	514
Over five years	<u>1,078</u>	<u>673</u>
<b>Total operating lease rentals payable</b>	<b>1,694</b>	<b>1,258</b>

**29. Litigation**

The company is vigorously pursuing the repayment of litigation funding loans made to clients of solicitor firms and further litigation may be required in this regard. Counter claims have been received and there is the possibility of litigation being necessary. There is a risk of an adverse outcome in all litigation and the costs and timescale to resolve these matters remain uncertain.