

# Conister Bank Limited

Directors' report and financial statements  
For the year ended 31 December 2013

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## Directors

Don McCrickard (77)  
Non-Executive Chairman

Alan Clarke (63)\*  
Non-Executive Director

Denham Eke (62)  
Non-Executive Director

David Gibson (66)\*  
Non-Executive Director

Douglas Grant (49)  
Executive Director

Juan Kelly (43)  
Managing 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  
Guernsey GY1 3BY

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

The Directors have pleasure in submitting their annual report and the audited financial statements for the year ended 31 December 2013.

#### 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 (2012: £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 2013, there were 19 members of staff, 2 of whom were part-time (2012: 23 members of staff, 4 of whom were part-time).

#### Investments in subsidiaries

Investments in the Company's subsidiaries are disclosed in note 20 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

24 February 2014

Conister Bank Limited  
Statement of Directors' responsibilities  
in respect of the Directors' Report and the financial statements  
for the year ended 31 December 2013

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

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

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

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

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

We have audited the financial statements of Conister Bank Limited (the Bank) for the year ended 31 December 2013 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 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 2013 and of the Group's profit 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.

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

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.

The Bank's total exposure in relation to this matter is £589,000, comprising a debtor balance of £466,000 plus an additional £123,000 VAT reclaimed under the Partial Exemption Special Method (PESM) in the period from Q4 2011 to Q3 2012.

The Bank, 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 PESH 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 was subsequently given leave to appeal and this was scheduled to be heard in October 2013 ("the VWFS Appeal"). However, this has now been delayed pending reference to a relevant European Court of Human Right judgement.

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 2013 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

24 February 2014

Conister Bank Limited  
Consolidated Statement of Comprehensive Income  
for the year ended 31 December 2013

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	Notes	2013 £000	2012 £000
<b>Continuing operations</b>			
Interest income	6	10,750	7,800
Interest expense		(2,136)	(2,018)
<b>Net interest income</b>		<b>8,614</b>	<b>5,782</b>
Fee and commission income		57	55
Fee and commission expense		(966)	(591)
Commission share schemes	3(p)	(2,249)	(1,032)
<b>Net fee and commission expense</b>		<b>(3,158)</b>	<b>(1,568)</b>
<b>Net trading income</b>		<b>5,456</b>	<b>4,214</b>
Other operating income		79	27
<b>Operating income</b>		<b>5,535</b>	<b>4,241</b>
Provision for impairment of loan assets	7	(855)	(8)
Personnel expenses	8	(2,095)	(2,079)
Depreciation	9,18	(237)	(193)
Other expenses		(2,238)	(1,986)
VAT receivable	20	-	71
Depositors' Compensation Scheme recovery	10	100	37
Realised gains on available-for-sale financial instruments		18	28
Realised loss on financial assets carried at fair value		(3)	(128)
<b>Profit / (loss) before income tax (payable) / recoverable</b>	9	<b>225</b>	<b>(17)</b>
Income tax (payable) / recoverable	11	(20)	365
<b>Profit for the year from continuing operations</b>		<b>205</b>	<b>348</b>
<b>Other comprehensive income</b>			
<b>Items that will be reclassified to profit or loss</b>			
Available-for-sale gains taken to equity		10	-
<b>Items that will never be reclassified to profit or loss</b>			
Actuarial losses on defined benefit pension scheme taken to equity	23	(53)	(98)
<b>Total comprehensive income for the year attributable to owners</b>		<b>162</b>	<b>250</b>

The notes on pages 9 to 33 form part of these financial statements.

Conister Bank Limited  
Consolidated and Company Statements of Financial Position  
as at 31 December 2013

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		Group		Company	
	Notes	2013 £000	2012 £000	2013 £000	2012 £000
<b>Assets</b>					
Cash and cash equivalents	13	4,005	1,782	3,994	1,773
Financial assets at a fair value through profit or loss	14	48	51	48	51
Available-for-sale financial instruments	15	9,000	12,484	9,000	12,484
Loans and advances to customers	16	75,651	58,482	75,629	58,460
Property, plant and equipment	18	555	654	549	635
Investment in group undertakings	19	-	-	10	10
Amounts due from group undertakings	19	99	131	262	912
Trade and other receivables	20	765	1,001	759	1,001
Deferred tax asset	11	345	365	345	365
Goodwill	17	448	448	448	448
<b>Total assets</b>		<b>90,916</b>	<b>75,398</b>	<b>91,044</b>	<b>76,139</b>
<b>Liabilities</b>					
Customer accounts	21	78,115	63,731	78,115	63,731
Amounts due to group undertakings	19	2,127	108	3,456	2,004
Creditors and accrued charges	22	678	1,777	675	1,777
Pension liability	23	252	200	252	200
<b>Total liabilities</b>		<b>81,172</b>	<b>65,816</b>	<b>82,498</b>	<b>67,712</b>
<b>Equity</b>					
Called up share capital	24	5,000	5,000	5,000	5,000
Retained earnings		4,744	4,582	3,546	3,427
<b>Total equity</b>		<b>9,744</b>	<b>9,582</b>	<b>8,546</b>	<b>8,427</b>
<b>Total liabilities and equity</b>		<b>90,916</b>	<b>75,398</b>	<b>91,044</b>	<b>76,139</b>


The financial statements were approved by the Board of Directors on 24 February 2014 and signed on their behalf by:

Don McCrickard  
Chairman

  
Juan Kelly  
Managing Director

  
Douglas Grant  
Group Finance Director

The notes on pages 9 to 33 form part of these financial statements.





Conister Bank Limited  
Consolidated Statement of Cash Flows  
for the year ended 31 December 2013

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	Notes	2013 £000	2012 £000
<b>RECONCILIATION OF PROFIT / (LOSS) BEFORE TAXATION TO OPERATING CASH FLOWS</b>			
Profit/(loss) before tax on continuing activities		225	(17)
Realised loss on financial asset carried at fair value	14	3	128
Realised gains on available-for-sale financial instruments	15	(18)	(28)
Loss/(gain) on disposal of property, plant and equipment		17	(8)
Depreciation charge	9,18	237	193
Actuarial loss on defined benefit pension scheme taken to equity	23	(53)	(98)
Increase in pension liability		52	121
Decrease in trade and other debtors		268	1,154
Increase in trade and other creditors		920	1,225
Net cash inflow from trading activities		<u>1,651</u>	<u>2,670</u>
Increase in loans and advances to customers		(17,169)	(8,890)
Increase in deposit accounts		<u>14,384</u>	<u>7,821</u>
<b>Cash (outflow) / inflow from operating activities</b>		<b>(1,134)</b>	<b>1,601</b>
<b>STATEMENT OF CASH FLOWS</b>			
<b>Cash flows from operating activities</b>			
Cash inflow from operating activities		(1,134)	1,601
Taxation paid		-	-
<b>Net cash (outflow) / inflow from operating activities</b>		<b>(1,134)</b>	<b>1,601</b>
<b>Cash flows from investing activities</b>			
Purchase of tangible fixed assets	18	(155)	(201)
Sale of tangible fixed assets		-	61
Sale / (purchase) of available-for-sale financial instruments		<u>3,512</u>	<u>(1,961)</u>
<b>Net cash inflow / (outflow) from investing activities</b>		<b>3,357</b>	<b>(2,101)</b>
<b>Increase / (decrease) in cash and cash equivalents</b>		<b>2,223</b>	<b>(500)</b>
<b>Included in cash flows are:</b>			
Interest received – cash amounts		9,072	8,003
Interest paid – cash amounts		<u>(2,101)</u>	<u>(2,396)</u>

The notes on pages 9 to 33 form part of these financial statements.

## Statement of Changes in Equity

Group	Share Capital £000	Retained Earnings £000	2013 £000	2012 £000
Balance as at 1 January	5,000	4,582	9,582	9,332
Profit for the year	-	205	205	348
Other comprehensive income	-	(43)	(43)	(98)
<b>Transactions with owners:</b>				
Dividend to equity holders	-	-	-	-
<b>Balance as at 31 December</b>	<b>5,000</b>	<b>4,744</b>	<b>9,744</b>	<b>9,582</b>

Company	Share Capital £000	Retained Earnings £000	2013 £000	2012 £000
Balance at 1 January	5,000	3,427	8,427	8,178
Profit for the year	-	162	162	347
Other comprehensive income	-	(43)	(43)	(98)
<b>Transactions with owners:</b>				
Dividend to equity holders	-	-	-	-
<b>Balance as at 31 December</b>	<b>5,000</b>	<b>3,546</b>	<b>8,546</b>	<b>8,427</b>

The notes on pages 9 to 33 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 2013 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) as adopted by the European Union (EU) 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 2012 annual report.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- *IFRS 10 Consolidated Financial Statements (2011)*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosure of Interests in Other Entities*
- *IFRS 13 Fair Value Measurement*
- *Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)*
- *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)*
- *IAS 19 Employee Benefits (2011)*
- *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) (2013)*
- *Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)*
- *IAS 36 "Recoverable amount disclosures for non-financial assets"*

The nature and the effects of significant changes are explained below.

#### *Subsidiaries, including structured entities*

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether 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 accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed its control conclusions as of 1 January 2013. No changes resulted from this reassessment.

#### *Fair value measurement*

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value. 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 that date. The fair value of a liability reflects its non-performance risk.

This change had no significant impact on the measurements of the Group's assets and liabilities, but the Group has included new disclosures in the financial statements, which are required under IFRS 13.

In addition, the IASB has issued amendments to reverse the unintended requirement in IFRS 13 to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13.

#### *Presentation of items of other comprehensive income (OCI)*

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of comprehensive income, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

## 2. Basis of preparation (continued)

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

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

### (b) Property, plant and equipment

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

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

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

#### Depreciation

Assets are depreciated on a straight-line basis 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

### 3. Significant accounting policies (continued)

#### (c) Financial assets

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

##### *Loans and receivables*

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

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

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

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

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

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

##### *Investments in subsidiary undertakings*

Investments in subsidiary undertakings in the 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 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 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 represent the contributions payable during the year.

##### *Other obligations*

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

#### (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 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)	Effective date (accounting period commencing on or after)
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
Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)	1 January 2014
IFRIC 21 Levies	1 January 2014
Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	1 January 2014
Defined Benefit Plans : Employee Contributions (Amendment to IAS 19)	1 July 2014
IFRS 9 Financial Instruments	To be decided

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) Commission share schemes

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

### 4. Risk and capital management

#### (a) Risk management

##### Introduction and overview

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

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

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

##### Risk management framework

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

The Board has established the Executive Risk Committee (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).



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

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

##### **Risk management framework (continued)**

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, 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 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;
- limiting concentrations of exposure to counterparties, geographies and industries, and defining sector limits and lending caps;
- limiting the term of exposure to minimise interest rate risk;
- ensuring that appropriate records of all sanctioned facilities are maintained;
- ensuring regular account reviews are carried out for all accounts agreed by the CC; and
- ensuring Board approval is obtained on all decisions of the CC above the limits set out in the Group credit risk policy.

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

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

	2013 £000	2012 £000
<b>Carrying value</b>	<b>75,651</b>	<b>58,482</b>
Individually impaired		
Grade A	-	-
Grade B	-	-
Grade C	<b>4,305</b>	<b>5,423</b>
Gross value	<b>4,305</b>	<b>5,423</b>
Allowance for impairment	<b>(3,578)</b>	<b>(4,151)</b>
<b>Carrying value</b>	<b>727</b>	<b>1,272</b>
<b>Collective allowance for impairment</b>	<b>(179)</b>	<b>(162)</b>
Past due but not impaired		
Less than 1 month	<b>24</b>	<b>819</b>
1 month but less than 2 months	<b>123</b>	<b>467</b>
2 months but less than 3 months	<b>48</b>	<b>555</b>
3 months and over	<b>1,404</b>	<b>478</b>
<b>Carrying value</b>	<b>1,599</b>	<b>2,319</b>
<b>Neither past due nor impaired</b>	<b>73,504</b>	<b>55,053</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.

**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, 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 six months. In order to meet this requirement, the Group measures and manages its cash flow commitments, and maintains its liquid balances in a diversified portfolio of short-term bank balances and short dated UK Government Treasury Bills. Bank balances are only held with financial institutions approved by the Board and which meet the requirements of the 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 2013	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	617	1,817	1,270	5,359	28,766	30,517	13,690	-	82,036
Other liabilities	805	-	-	-	-	-	-	2,252	3,057
<b>Total liabilities</b>	<b>1,422</b>	<b>1,817</b>	<b>1,270</b>	<b>5,359</b>	<b>28,766</b>	<b>30,517</b>	<b>13,690</b>	<b>2,252</b>	<b>85,093</b>

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>

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

31 December 2013	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	4,005	-	-	-	-	-	-	-	4,005
Available-for-sale financial instruments	7,000	2,000	-	-	-	-	-	-	9,000
Customer accounts receivable	875	3,222	4,679	6,505	11,837	38,916	9,521	96	75,651
Other assets	48	-	-	-	-	-	-	2,212	2,260
<b>Total assets</b>	<b>11,928</b>	<b>5,222</b>	<b>4,679</b>	<b>6,505</b>	<b>11,837</b>	<b>38,916</b>	<b>9,521</b>	<b>2,308</b>	<b>90,916</b>
<b>Liabilities</b>									
Customer accounts	608	1,815	1,266	5,291	28,250	28,792	12,093	-	78,115
Other liabilities	805	-	-	-	-	-	-	2,252	3,057
<b>Total liabilities</b>	<b>1,413</b>	<b>1,815</b>	<b>1,266</b>	<b>5,291</b>	<b>28,250</b>	<b>28,792</b>	<b>12,093</b>	<b>2,252</b>	<b>81,172</b>

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>

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

**iii) Operational risk**

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

**iv) Market risk**

Market risk is the risk that changes in the level of interest rates, changes in the rate of exchange between currencies or changes in the price of securities and other financial contracts including derivatives will have an adverse financial impact. The primary market risk within the Group's activities is interest rate risk. As at 31 December 2013 and 2012, 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, £48,000 at 31 December 2013 (2012: £51,000) 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. 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 2013	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	4,005	-	-	-	-	-	-	-	4,005
Available-for- sale financial instruments	9,000	-	-	-	-	-	-	-	9,000
Customer accounts receivable	4,097	4,679	6,505	11,837	38,916	9,521	96	-	75,651
Other assets	-	-	-	-	-	-	-	2,260	2,260
<b>Total assets</b>	<b>17,102</b>	<b>4,679</b>	<b>6,505</b>	<b>11,837</b>	<b>38,916</b>	<b>9,521</b>	<b>96</b>	<b>2,260</b>	<b>90,916</b>
<b>Liabilities</b>									
Customer accounts	2,423	1,266	5,291	28,250	28,792	12,093	-	-	78,115
Other liabilities	-	-	-	-	-	-	2,000	1,057	3,057
Total capital reserves	-	-	-	-	-	-	-	9,744	9,744
<b>Total liabilities and equity</b>	<b>2,423</b>	<b>1,266</b>	<b>5,291</b>	<b>28,250</b>	<b>28,792</b>	<b>12,093</b>	<b>2,000</b>	<b>10,801</b>	<b>90,916</b>
<b>Interest rate sensitivity gap</b>	<b>14,679</b>	<b>3,413</b>	<b>1,214</b>	<b>(16,413)</b>	<b>10,124</b>	<b>(2,572)</b>	<b>(1,904)</b>	<b>(8,541)</b>	<b>-</b>



4. Risk and capital management (continued)

(a) Risk management (continued)

v) Interest rate risk (continued)

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>

**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 2013	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>14,679</b>	<b>3,413</b>	<b>1,214</b>	<b>(16,413)</b>	<b>10,124</b>	<b>(2,572)</b>	<b>(1,904)</b>	<b>(8,541)</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>10</b>	<b>8</b>	<b>(230)</b>	<b>273</b>	<b>(139)</b>	<b>(219)</b>	<b>-</b>	<b>(296)</b>

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>

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

##### (b) Capital management

##### Regulatory capital

The Group considers capital to comprise share capital, reserves and subordinated loans. Capital is deployed by the Board to meet the commercial objectives of the Group, whilst meeting regulatory requirements. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor, depositor and market confidence and to sustain future development of the business. In implementing current capital requirements the 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:

	2013 £000	2012 £000
<b>Tier 1 capital</b>		
Ordinary share capital	5,000	5,000
Retained earnings <sup>^</sup>	4,582	4,574
Deduction for goodwill	(448)	(448)
<b>Total Tier 1 capital</b>	<b>9,134</b>	<b>9,126</b>
<b>Tier 2 capital</b>		
Subordinated loans	2,000	-
Collective allowances for impairment (subject to FSC limit)	179	162
Deduction for intercompany receivables	(99)	(22)
<b>Total Tier 2 capital</b>	<b>2,080</b>	<b>140</b>
<b>Total regulatory capital</b>	<b>11,214</b>	<b>9,266</b>
<b>Total risk-weighted assets</b>	<b>68,220</b>	<b>54,463</b>
<b>Risk asset ratio</b>		
Total regulatory capital expressed as a percentage of total risk-weighted assets	16%	17%

<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.

##### (c) Fair value of financial instruments

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

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

##### Valuation models

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments;
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and

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

##### (c) Fair value of financial instruments (continued)

- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

##### *Financial instruments measured at fair value – fair value hierarchy*

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

31 December 2013	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Investment securities</b>				
Government bonds	9,000	-	-	9,000
Equities	48	-	-	48
	<u>9,048</u>	<u>-</u>	<u>-</u>	<u>9,048</u>

##### *Financial instruments not measured at fair value*

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

31 December 2013	Level 1 £000	Level 2 £000	Level 3 £000	Total Fair Values £000	Total Carrying Amount £000
<b>Assets</b>					
Cash and cash equivalents	-	4,005	-	4,005	4,005
Loans and advances to customers	-	75,651	-	75,651	75,651
Amounts due from group undertakings	-	99	-	99	99
Trade and other receivables	-	765	-	765	765
	<u>-</u>	<u>80,520</u>	<u>-</u>	<u>80,520</u>	<u>80,520</u>
<b>Liabilities</b>					
Customer accounts	-	78,115	-	78,115	78,115
Amounts due to group undertakings	-	2,127	-	2,127	2,127
Creditors and accruals	-	678	-	678	678
	<u>-</u>	<u>80,920</u>	<u>-</u>	<u>80,920</u>	<u>80,920</u>

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

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

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



## 5. Segmental analysis

Segmental information is presented in respect of the Group's business segments. The Board consider that the Group currently operates in one geographic segment, the Isle of Man and UK. The primary format, business segments, is based on the Group's management and internal reporting structure. The Board 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.

	Asset and Personal Finance £000	Litigation Finance £000	Total 2013 £000
<b>For the year ended 31 December 2013</b>			
Net interest income	8,614	-	8,614
Operating income	5,535	-	5,535
Provision for impairment	(641)	(214)	(855)
<b>Profit/(loss) before income tax</b>	<b>439</b>	<b>(214)</b>	<b>225</b>
<b>Capital expenditure</b>	<b>155</b>	<b>-</b>	<b>155</b>
<b>Total assets</b>	<b>90,239</b>	<b>677</b>	<b>90,916</b>
<b>Total liabilities</b>	<b>80,495</b>	<b>677</b>	<b>81,172</b>

	Asset and Personal Finance £000	Litigation Finance £000	Total 2012 £000
<b>For the year ended 31 December 2012</b>			
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>

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

## 6. Interest income

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

## 7. Allowances for impairment

The charge in respect of specific allowances for impairment comprises:

	2013 £000	2012 £000
Specific impairment allowances made	838	466
Reversal of allowances previously made	-	(396)
<b>Total charge for specific allowances for impairment</b>	<b>838</b>	<b>70</b>

The charge in respect of collective allowances for impairment comprises:

	2013 £000	2012 £000
Collective impairment allowances made	17	75
Release of allowances previously made	-	(137)
<b>Total charge for collective allowances for impairment</b>	<b>17</b>	<b>(62)</b>
<b>Total charge for allowances for impairment</b>	<b>855</b>	<b>8</b>

## 8. Re-structure costs

Re-structure costs occurred in the current year of £51,000 and prior year of £371,000, which comprised of redundancy costs and the closure of branch offices in the UK and reorganised operational processes in the Isle of Man.

## 9. Profit before taxation

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

	2013 £000	2012 £000
Depreciation	237	193
Loss / (profit) on sale of fixed assets	17	(8)
Directors' fees	163	135
Directors' remuneration	339	376
Directors' pensions	32	35
Directors' bonuses	30	-
Auditors' remuneration	72	59
	as Auditors current year non-audit services	18
Pension cost defined contribution scheme	9	35
Operating lease rentals for property	117	103

## 10. Depositors' Compensation Scheme recovery

	2013 £000	2012 £000
Provision in respect of Kaupthing Singer & Friedlander (Isle of Man) Limited	100	37
	<b>100</b>	<b>37</b>

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 the Consolidated Statement of Comprehensive Income. Repayments from the Financial Supervision Commission of £133,506 and £32,737 have been received and a further £44,315 is expected from the Scheme.

## 11. Income tax recovery

The main rate of income tax in the Isle of Man is 0% (2012: 0%), however the profits of the Group's Manx banking activities are taxed at 10% (2012: 10%). The profits of the Group's subsidiaries that are subject to UK corporation tax are taxed at a rate of 20% (2012: 20%). 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 £344,661 (2012: £365,000) which has been recognised as a deferred tax asset in the current year.

## 12. 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 £162,000 (2012: £347,000).

## 13. Cash and cash equivalents

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Cash at bank and in hand	3,959	1,736	3,948	1,727
Short term deposits	46	46	46	46
	<u>4,005</u>	<u>1,782</u>	<u>3,994</u>	<u>1,773</u>

Cash at bank includes an amount of £241,699 (2012: £18,809) representing cheques issued in the course of transmission. The remaining maturity of short term deposits is as follows:

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Less than 8 days	46	46	46	46

## 14. Financial assets at fair value through profit or loss

The investment represents shares in 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. Dividend income of £350,000 has been received from this investment since it was made.

## 15. Available-for-sale financial instruments

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
UK Government Treasury Bills	9,000	12,484	9,000	12,484
	<u>9,000</u>	<u>12,484</u>	<u>9,000</u>	<u>12,484</u>

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

## 16. Loans and advances to customers

Group	2013			2012		
	Gross Amount £000	Impairment Allowance £000	Carrying Value £000	Gross Amount £000	Impairment Allowance £000	Carrying Value £000
HP balances	46,305	(863)	45,442	37,942	(883)	37,059
Finance lease balances	8,882	(707)	8,175	6,543	(696)	5,847
Litigation funding	2,114	(1,437)	677	2,526	(1,627)	899
Unsecured personal loans	3,614	(306)	3,308	3,913	(362)	3,551
Vehicle stocking plans	1,476	-	1,476	1,404	-	1,404
Block discounting	5,192	-	5,192	4,601	-	4,601
Secured commercial loans	6,991	(435)	6,556	5,866	(745)	5,121
Secured personal loans	4,834	(9)	4,825	-	-	-
	<u>79,408</u>	<u>(3,757)</u>	<u>75,651</u>	<u>62,795</u>	<u>(4,313)</u>	<u>58,482</u>

16. Loans and advances to customers (continued)

Company	Gross Amount £000	2013 Impairment Allowance £000	Carrying Value £000	Gross Amount £000	2012 Impairment Allowance £000	Carrying Value £000
HP balances	46,108	(688)	45,420	37,942	(883)	37,059
Finance lease balances	8,882	(707)	8,175	6,543	(696)	5,847
Litigation funding	2,114	(1,437)	677	2,329	(1,452)	877
Unsecured personal loans	3,614	(306)	3,308	3,913	(362)	3,551
Vehicle stocking plans	1,476	-	1,476	1,404	-	1,404
Block discounting	5,192	-	5,192	4,601	-	4,601
Secured commercial loans	6,991	(435)	6,556	5,866	(745)	5,121
Secured personal loans	4,834	(9)	4,825	-	-	-
	79,211	(3,582)	75,629	62,598	(4,138)	58,460

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.

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
<b>Specific allowance for impairment</b>				
Balance at 1 January	4,151	4,305	3,976	4,130
Charge for allowances made	459	70	459	70
Write-offs	(1,032)	(224)	(1,032)	(224)
<b>Balance at 31 December</b>	<b>3,578</b>	<b>4,151</b>	<b>3,403</b>	<b>3,976</b>

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
<b>Collective allowance for impairment</b>				
Balance at 1 January	162	225	162	225
Collective allowance for impairment made	17	75	17	75
Release of allowances previously made	-	(138)	-	(138)
<b>Balance at 31 December</b>	<b>179</b>	<b>162</b>	<b>179</b>	<b>162</b>
<b>Total allowances for impairment</b>	<b>3,757</b>	<b>4,313</b>	<b>3,582</b>	<b>4,138</b>

Advances on preferential terms are available to all Directors, management and staff. As at 31 December 2013, £93,187 (2012: £133,740) 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 two loan exposures exceeded 10% of the capital base of the Company and Group, (2012: one loan exposure):

Exposure	Outstanding Balance		Facility Limit
	2013 £000	2012 £000	2013 £000
Secured commercial loan	-	4,176	N/A
Block discounting facility	2,229	-	2,850

16. Loans and advances to customers (continued)

HP and finance lease receivables

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

	2013 £000	2012 £000
Less than one year	25,526	21,828
Between one and five years	42,806	30,520
<b>Gross investment in HP and finance lease receivables</b>	<b>68,332</b>	<b>52,348</b>
Unearned future income on finance leases	(13,145)	(7,863)
<b>Investment in HP and finance lease receivables net of unearned income</b>	<b>55,187</b>	<b>44,485</b>

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

	2013 £000	2012 £000
Less than one year	19,569	18,441
Between one and five years	35,618	26,044
<b>Net investment in HP and finance lease receivables</b>	<b>55,187</b>	<b>44,485</b>

17. Goodwill

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £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)
	<b>448</b>	<b>448</b>	<b>448</b>	<b>448</b>

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 (2012: 12% 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.

# 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 2013	180	924	181	49	1,334
Additions	3	152	-	-	155
Disposals	-	-	(17)	-	(17)
<b>As at 31 December 2013</b>	<b>183</b>	<b>1,076</b>	<b>164</b>	<b>49</b>	<b>1,472</b>
<b>Depreciation</b>					
As at 1 January 2013	7	524	118	31	680
Provided in the year	31	190	4	12	237
Eliminated on disposals	-	-	-	-	-
<b>As at 31 December 2013</b>	<b>38</b>	<b>714</b>	<b>122</b>	<b>43</b>	<b>917</b>
<b>Carrying value at 31 December 2013</b>	<b>145</b>	<b>362</b>	<b>42</b>	<b>6</b>	<b>555</b>
Carrying value at 31 December 2012	173	400	63	18	654

Fixed assets with a net book value of £6,000 (2012: £18,000) are held by Conister Finance & Leasing Ltd. These comprise motor vehicles of £6,000 (2012: £18,000). The depreciation charge in respect of these assets was £12,000 (2012: £9,000).

# 19. Investment in and loans to group undertakings

The Company has the following investments:

Name	Nature of business	31 December 2013 Holding %	Date & place of incorporation	Cost of investment 2013 £	Cost of investment 2012 £
Commercial Finance Limited	Dormant	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	Dormant	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.

MFG issued two subordinated loans during 2013 of £1 million each, with a repayment term of 6 years and 7% interest payable per annum levied at the discretion of the lender.



## 20. Trade and other receivables

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Trade debtors	1	3	1	3
Prepayments and other debtors	298	532	292	532
VAT Recoverable	466	466	466	466
	<b>765</b>	<b>1,001</b>	<b>759</b>	<b>1,001</b>

Included in trade and other receivables is an amount of £466,000 (2012: £466,000) relating to a reclaim of value added tax (VAT).

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

The decision of the First-Tier Tax Tribunal released 18 August 2011 in respect of Volkswagen Financial Services (UK) Limited v HM Revenue & Customs (TC01401) ("VWFS Decision") added significant weight to the case put by the Bank and a request for a revised Partial Exemption Special Method was submitted in December 2011. The proposal put forward by the Bank was that the revised method would allocate 50% of costs in respect of HP transactions to a taxable supply and 50% to an exempt supply. In addition at this time a Voluntary Disclosure was made as a retrospective claim for input VAT under-claimed in the last 4 years.

In November 2012, it was announced that the HMRC Upper Tribunal had overturned the First-Tier Tribunal in relation to the VWFS Decision. VWFS has subsequently been given leave to appeal and this was scheduled to be heard in October 2013. However, this has now been delayed pending reference to a relevant European Court of Human Rights judgement.

The Bank's total exposure in relation to this matter is £589,000, comprising the debtor balance referred to above plus an additional £123,000 VAT reclaimed under the partial Exemption Special Method, in the period from Q4 2011 to Q3 2012 (from Q4 2012 the Bank reverted back to the previous method).

On the basis of the discussions and correspondence which have taken place between the Bank and C&E, in addition to the VWFS appeal, the Directors are confident that the VAT claimed referred to above will be secured.

## 21. Customer accounts

Group and Company	2013 £000	2012 £000
Retail customers	75,989	61,647
Corporate customers	2,126	2,084
	<b>78,115</b>	<b>63,731</b>

## Fiduciary deposits

At 31 December 2013 the Bank acted as agent bank to a number of customers, for balances totalling £7.8 million (2012: £19.9 million). The Bank invests these customer assets with third party banks on their behalf and in return for this service receives a fee. These balances are not included within the statement of financial position.

## 22. Creditors and accrued charges

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Commission creditors	576	1,474	576	1,474
Other creditors and accruals	102	303	99	303
	<b>678</b>	<b>1,777</b>	<b>675</b>	<b>1,777</b>

### 23. Pension liability

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

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

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

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

#### Exposure to risk

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

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

In order to assess the sensitivity of the Scheme's pension liability to these risks, sensitivity analyses have been carried out. Each sensitivity analysis is based on changing one of the assumptions used in the calculations, with no change in the other assumptions. The same method has been applied as was used to calculate the original pension liability and the results are presented in comparison to that liability. It should be noted that in practice it is unlikely that one assumption will change without a movement in the other assumptions; there may also be some correlation between some of these assumptions. It should also be noted that the value placed on the liabilities does not change on a straight line basis when one of the assumptions is changed. For example, a 2% change in an assumption will not necessarily produce twice the effect on the liabilities of a 1% 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 IASB'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 2013 (2012: 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 2013, which showed that the market value of the Scheme's assets was £1,283,000 representing 80.0% 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 2013.



### 23. Pension liability (continued)

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

	2013 £000	2012 £000
<b>Total underfunding in funded plans recognised as a liability</b>		
Fair value of plan assets	1,245	1,227
Present value of funded obligations	(1,497)	(1,427)
	(252)	(200)

	2013 £000	2012 £000
<b>Movement in the liability for defined benefit obligations</b>		
Opening defined benefit obligations at 1 January	1,427	1,271
Benefits paid by the plan	(66)	(57)
Interest on obligations	68	72
Actuarial loss	68	141
<b>Liability for defined benefit obligations at 31 December</b>	<b>1,497</b>	<b>1,427</b>

	2013 £000	2012 £000
<b>Movement in plan assets</b>		
Opening fair value of plan assets at 1 January	1,227	1,192
Expected return on assets	59	39
Contribution by employer	10	10
Actuarial gain	15	43
Benefits paid	(66)	(57)
<b>Closing fair value of plan assets at 31 December</b>	<b>1,245</b>	<b>1,227</b>

	2013 £000	2012 £000
<b>Expense recognised in statement of comprehensive income</b>		
Interest on obligation	68	72
Interest on plan assets	(59)	(37)
<b>Total included in personnel costs</b>	<b>9</b>	<b>35</b>
<b>Actual return on plan assets</b>	<b>74</b>	<b>93</b>

	2013 £000	2012 £000
<b>Expense recognised in statement of comprehensive income</b>		
Actuarial gain on plan assets	15	43
Actuarial loss on defined benefit obligations	(68)	(141)
	(53)	(98)

	2013 %	2012 %
<b>Plan assets consist of the following</b>		
Equity securities	37	33
Corporate bonds	39	39
Government bonds	20	22
Cash	1	6
Other	3	-
	100	100

## 23. Pension liability (continued)

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

	2013 %	2012 %	2011 %
Rate of increase in pension in payment:			
- service up to 5 April 1997	-	-	-
- service from 6 April 1997 to 13 September 2005	3.10	2.30	2.90
- service from 14 September 2005	2.10	1.80	2.10
Discount rate applied to scheme liabilities	4.80	4.90	5.70
Return on assets	4.80	2.90	3.10

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

## 24. Called up share capital

Authorised: Ordinary shares of 25p each	Number	£000
As at 31 December 2013	52,000,000	13,000
As at 31 December 2012	52,000,000	13,000
Issued and fully paid: Ordinary shares of 25p each	Number	£000
As at 31 December 2013	20,000,000	5,000
As at 31 December 2012	20,000,000	5,000

## 25. Analysis of changes in financing during the year

Group and Company	2013 £000	2012 £000
Opening balance	5,000	5,000
Closing balance	5,000	5,000

The closing balance is represented by £5,000,000 share capital (2012: £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 16 to the financial statements.

## 27. Related party transactions (continued)

### Commercial loans

Normal commercial loans are made to various companies connected to Jim Mellon. As at 31 December 2013, £343,415 of capital and interest was outstanding (2012: £273,566).

### 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. In addition, MFG provided investment management and administration services for £600,000 (2012: nil).

### Key management personnel (including two Executive Directors) compensation

	2013 £000	2012 £000
Short-term employee benefits	369	397

## 28. Operating leases

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

	2013 £000	2012 £000
Less than one year	123	123
Between one and five years	493	493
Over five years	955	1,078
<b>Total operating lease rentals payable</b>	<b>1,571</b>	<b>1,694</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. There is a risk of an adverse outcome in all litigation and the costs and timescale to resolve these matters remain uncertain.

