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MANX FINANCIAL GROUP PLC

ANNUAL REPORT 2017

Welcome to Manx Financial Group PLC
Integrity through independence and service

An independent banking group founded in 1935, domiciled in the Isle of Man

Manx Financial Group PLC ("MFG") is an AIM-listed company (LSE: MFX.L) which has subsidiaries engaged in a suite of financial services based in the Isle of Man and the UK. These companies offer financial services to both retail and commercial customers. MFG's strategy is to grow organically and through strategic acquisition to further augment the range of services it offers.

Principal wholly owned subsidiaries: -

- Conister Bank Limited
- Edgewater Associates Limited
- Conister Card Services Limited
- Manx Incahoot Limited
- Manx FX Limited.

Conister Bank Limited ("the Bank") is a licensed independent bank, regulated by the Financial Services Authority in the Isle of Man, the Financial Conduct Authority in the UK and is a full member of the MasterCard® network and the Isle of Man's Association of Licensed Banks.

The Bank provides a variety of financial products and services, including savings accounts, asset financing, personal loans, loans to small and medium sized enterprises, block discounting and other specialist secured credit facilities to the Isle of Man and the UK consumer and business sectors.

Edgewater Associates Limited ("EWA") is the largest independent financial adviser in the Isle of Man.

It provides a bespoke and personal service to Isle of Man residents and to the Group's business and personal customers and advises on assets in excess of £273 million.

EWA specialises in the areas of wealth management, mortgages, general insurance, and retirement planning.

Conister Card Services Limited is the Group's pre-paid card division providing business clients with payment solutions that are both cost effective and create new revenue opportunities.

Manx Incahoot Limited provides Employee Benefit solutions to the UK and Isle of Man employment market. This product was launched in 2016.

Manx FX Limited was formed in 2014 and provides specialist solutions and access to competitive foreign exchange and international payment processing facilities.

Manx Financial Group PLC
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Jim Mellon
Chairman

Dear Shareholders,

When I wrote to you in the Interim Results for 2017, I was confident that the full year would continue the return to previous profitability. I am pleased to report that the Report & Accounts for 2017 show marked improvement, not only on 2016, but also on 2015 – our previous high watermark – and my earlier confidence was not misplaced.

Thus, our profit before tax has grown by 78% to £2.7 million (2016: £1.5 million), leading to a total comprehensive profit of £2.4 million (2016: £1.0 million), an increase of 150%. This is a very satisfactory outcome and reflects well on the performance of our newly restructured management and operations throughout the Group. I would also like to note that not only was the 2017 first half pre-tax profit of £0.9 million an Interim record (2016: £0.7 million), but also the second half 2017 pre-tax profit of £1.8 million (2016: £0.8 million) is again a record, demonstrating a sustained growth. The historic dependence on our banking subsidiary, Conister Bank Limited (the "Bank"), is reducing as Edgewater Associates Limited ("EWA"), our Independent Financial Advisory ("IFA") operation, has successfully integrated its recent acquisitions and is now making a significant contribution to the Group's overall financial performance. Our aim of becoming a diversified financial services group is coming to fruition and we are well placed to take advantage of opportunities as they arise.

Manx Financial Group PLC
As stated, profit before income tax for the year was £2.7 million (2016: £1.5 million) on a net interest income of £16.6 million (2016: £16.0 million). The positive impact of the enlarged EWA is evident at the net trading income level as it grew by £2.7 million to £11.3 million (2016: £8.6 million), a growth of 33%, and the increases in both personnel and administration expenses, in total £7.9 million (2016: £6.6 million), are mainly attributable to these acquisitions.

Turning to the Balance Sheet, our total assets increased by 13% to £173.2 million (2016: £152.7 million) and our total liabilities increased by 12% to £155.8 million (2016: £139.5 million). Within these figures, the Bank's loan book grew by £6.7 million to £122.7 million (2016: £116.1 million), the depositor base increased by £16.3 million to £142.3 million (2016: £126.0 million) – a growth of 6% and 13% respectively. Cash and equivalents stand at £44.0 million (2016: £30.1 million). As a result, the Group's equity increased by 32% to £17.4 million (2016: £13.2 million).

Our key metrics remain positive: the basic earnings per share have grown by 130% to 2.21 pence (2016: 0.96 pence) and our return on equity is now 16% (2016: 12%).

During the course of 2017, we extinguished all outstanding warrants over the Group and, as part of this exercise, Dr Gregory Bailey acquired 17.8 million shares, representing 13.6% of the current issued capital. I am pleased to welcome Dr Bailey to the board where his capital markets experience will be invaluable. The warrant exercise provided a further £1.8 million in aggregate to support the regulatory capital base of the Bank and was achieved without incurring onerous marketing costs. Dr Bailey is considered a concert party with me, and together we hold 29.9% of equity; Arron Banks and his associates hold 29.1%; leaving 41.0% of the issued capital in free float.

As I have previously explained, almost all of the Group's equity is utilised to underpin the Bank's regulatory capital. Maintaining and increasing our equity is fundamental in ensuring future growth to provide additional profitability. During the course of the year, I and my interests agreed to extend certain loans, at terms negotiated on an "arms-length" basis, that became due for repayment. As a result, both the coupon and conversion price for these loans have been changed in line with the market to 5% and 7.5 pence respectively (previously 7% and 4 pence). The Group will, however, require further regulatory capital to support the Bank's planned expansion and the executive is currently considering a number of ways in which we can expand this capital, but with the proviso that this will be only on a non-dilutive basis.

Conister Bank Limited
Our new loan advances totalled £73.7 million in 2017 which compares favourably with the previous year (2016: £72.5 million), with direct lending into the Isle of Man and the UK achieving notable success. Whilst the loan book appears only to have increased by 7% to £123.4 million (2016: £115.2 million), this figure disguises our successful elimination of £11.1 million in loan exposure to a single UK introducer where we suffered a disproportionate commission-sharing cost in relation to our perception of risk. Our underlying loan book growth was therefore £19.3 million, an improvement of 17%. Our net interest income increased by £0.8 million to £16.6 million (2016: £15.8 million), against a decrease in commission expense of £0.7 million to £8.4 million (2016: £9.1 million), leading to a £1.6 million growth in our operating income to £8.5 million (2016: £6.9 million) – an increase of 22%. Our new executive management has done well to stem the burden of commissions paid to introducers. Ensuring that we do not fall into the trap of "buying" business is a principal facet of our revised strategy.

Establishment costs grew by 9% to £5.7 million (2016: £5.2 million), largely as a result of implementing our new IT systems, including the replacement of the entire depositor software and the development of a fully-automated lending platform which has been introduced firstly in the Isle of Man in preparation for a UK launch. As a prudent measure, we have made further impairment provisions of £0.5 million (2016: £0.4 million), and have reduced intangible assets by £0.1 million (2016: nil). As a consequence, our profit after tax for the year increased by 223% to £2.0 million (2016: £0.6 million).

Turning to the Balance Sheet, the Bank's total asset base grew by 15% to £168.9 million (2016: £147.5 million) and total equity increased by 31% to £17.0 million (2016: £13.0 million). The loan book continues to perform well, with a total allowance for impairment of £2.5 million (2016: £2.2 million), representing 2%

of the book (2016: 2%). The continuing excellent performance of the loans provides the confidence that our future income will continue throughout 2018 and beyond. The Bank has £29.1 million excess liquidity (2016: £17.0 million): the increase largely as a result of a number of Isle of Man banks having left the market, allowing us to accumulate deposits at historically low rates to fund future lending. Managing this sum becomes increasingly important and we will enhance our Treasury function in the coming year to ensure that we generate the maximum return on any excess balance remaining from our lending activities. As we do not access Inter-Bank funding, we are reliant on an Isle of Man consumer deposit base. Our belief is that we have secured approximately 20% of the available market. During 2018, we will review the opportunity of extending our coverage to include institutional funds, to be accessed as and when required.

Our operational costs to net income ratio stands at 69% (2016: 77%). Even though this is a marked year-on-year improvement, we believe that there is still considerable room to better this ratio and this will be a focus throughout 2018. Although much of these costs are of a fixed nature, they are scalable and thus our development of a specialised broker network coupled with the automated web-based loan processing platform will help achieve a favourable outcome.

The Bank acquired a 40% holding in the Business Lending Exchange Limited, based in the UK, together with an option to acquire the remaining shareholding, exercisable by 2021, based on 60% of four times EBITA. I anticipate announcing further acquisitions in due course.

Surrounding the Bank's entire operation is our strict adherence to a robust credit and risk management framework. This enables us to ensure we maintain our growth in a controlled and safe manner in both the prime and near-prime markets. To this end, I am pleased to state that we augmented the Bank's executive management of Douglas Grant, Managing Director, and James Smeed, Finance Director with the appointment of Steven Quayle as Head of Risk and Compliance, Haseeb Qureshi as Chief Operating Officer and Andrew Bass as Isle of Man Sales Director: all three with the status of Associate Director and, pleasingly, the latter two being internal promotions. We have strengthened our Internal Audit function to further ensure that the Bank's culture continues to meet the highest professional standards possible.

Edgewater Associates Limited

Following the successful integration of the recent acquisition of the majority of the Isle of Man's IFA business held by Knox Financial Services Limited, followed by the acquisition of Balla Brokers (Insurance Services) Limited, I am pleased to report that EWA, under Managing Director Sandra Cardwell, increased its gross profit by 79% to £2.6 million (2016: £1.5 million), leading to a post-tax profit of £0.7 million (2016: £0.4 million) – a growth of 102%. Administrative expenses grew commensurately to £1.8 million (2016: £1.1 million). This excellent performance means that EWA's net assets now stand at £2.0 million (2016: £1.3 million) and, as a result, equity has grown by 58%. EWA's return on equity, based on its 2010 acquisition price of £2 million, was a very impressive 35%.

These consolidations have made EWA the largest IFA in the Isle of Man, with over 10,000 clients and advising on assets in excess of £273 million. Although principally dealing with private individuals, considerable inroads have been made into the local corporate market place and a team of experienced IFAs has been assembled to grow this business line.

EWA also includes a general insurance division which increased gross written premium in 2017 by 40% to £0.8 million (2016: £0.5 million) and has the organisational structure to support further acquisitions – an area in which I hope to make further announcements in due course.

Manx FX Limited

Our foreign exchange advisory service, Manx FX Limited, under Managing Director Garry Vernon, generated a post-tax profit in 2017 of £0.3 million (2016: £0.0 million) and has more than recovered the initial investment expenditure.

Manx FX Limited continues to tender for new accounts and to seek out new market sector opportunities by attending specialist conferences, working with the Isle of Man government and through customer referrals.

Manx Incahoot Limited

Not all of our incubator companies will immediately generate profits and whilst Manx Incahoot Limited has incurred development losses there is no doubt the employee benefit market remains a growing sector. Unfortunately, the gestation period between contract negotiation and completion is lengthy. There are challenges ahead for this business and 2018 will be a defining year for this subsidiary.

Corporate Governance

One of the Group Board's primary responsibilities is to ensure the provision of effective corporate governance. To this end, the Board undertook a full review of every aspect of governance in the light of the Quoted Companies Alliance Code, 2013. I am pleased to report that the Group is now fully compliant, well in advance of the AIM requirement to adopt a recognised code of conduct by September 2018.

Outlook

We have made a number of important changes during the year, the results of which are extremely encouraging in almost all areas and provide a strong platform to drive future profitability. Our Balance Sheet is stronger than it has ever been. Not only are we constantly seeking new lending opportunities, coupled with a pipeline of potential incremental acquisitions, but we are also considering prudential ways to maximise yield from our cash balances. Wherever possible, we are implementing IT solutions and systems development to free up our staff to take on more productive roles.

The Bank, being our largest operation, continues to benefit from an excellent loan book and the new lending opportunities available in both the Isle of Man and the UK – our only constraint being access to non-dilutive regulatory capital. For this, we have a number of potential solutions which the Board is currently evaluating.

EWA continues to increase its customer base and product offering, also seeking further acquisition opportunities to expand.

In doing all this, our underlying focus is always on an appreciation of risk and credit management and this focus is now embedded within the Group at all levels. We recognise that we have operated within a fairly beneficial financial environment over the last few years. I believe that this will continue within the short term, but we recognise that there is a possibility of a future economic downturn and we must be prepared for this. But we should always remember that change provides its own opportunities.

Finally, it remains for me to thank you, our shareholders, our excellent executive and staff who contribute so much to the development of business, and finally our customers, be they depositors or borrowers, for your continued loyalty.

Jim Mellon
Executive Chairman
15 March 2018

Executive Directors

Jim Mellon (61) ‡
Executive Chairman

Executive Chairman Jim Mellon is a well-known and successful entrepreneur, author and economic commentator, starting his career in fund management and now including biopharma, property, mining and information technology amongst his many investments. Jim holds directorships in a number of publicly quoted companies, many of which are in the financial services sector. He is the beneficial owner of Burnbrae Group Limited which, in turn, indirectly holds approximately 16% of Manx Financial Group PLC. He is the founder, principal shareholder and chairman of the Regent Pacific Group, quoted on the Hong Kong Stock Exchange.

Appointment
Appointed to the Board on 2 November 2007 and appointed as Executive Chairman on 12 February 2009.

Denham Eke (66) ‡
Chief Executive Officer

Chief Executive Officer Denham Eke is the Managing Director of Burnbrae Group Limited, a private international asset management company. He began his career in stockbroking with Sheppards & Chase before moving into corporate planning for Hogg Robinson plc, a major multinational insurance broker. He is a director of many years standing of both public and private companies involved in the financial services, property, mining, and manufacturing sectors. He is chairman of Webis Holdings PLC, chief finance officer of Life Science Developments Limited, chief finance officer of Port Erin Biopharma Investments Limited, and co-chairman of Billing Services Group Limited - all quoted on the London AIM market.

Appointment
Appointed to the Board on 2 November 2007 and appointed as Chief Executive on 12 February 2009.

Douglas Grant (53) ‡
Group Finance Director

Douglas Grant has over 30 years' experience working in finance, initially with Scottish Power, before moving to the industrial sector to work with ICI and then Allenwest. Prior to joining Manx Financial Group PLC, he was the group financial controller and later financial director of various UK and Isle of Man private sector companies and has extensive capital markets experience.

Appointment
Appointed to the Board on 14 January 2010. He is Managing Director of Conister Bank Limited.

Non-executive Directors

Alan Clarke (67) ‡ † * ≠
Non-executive Director

Alan Clarke is a chartered accountant and former senior partner of Ernst & Young during which time he worked closely with HSBC offshore operations in both the Channel Islands and the Isle of Man. Currently, he specialises in corporate finance and strategic consultancy, advising a variety of both listed and private companies. He holds several non-executive directorships and is a past President of ICAEW Manchester. He is also a registered auditor, being the senior partner of Downham Mayer Clarke.

Appointment
Appointed to the Board on 2 November 2007. Chairman of the Audit, Risk and Compliance Committee and Chairman of the Remuneration Committee.

David Gibson (70) ‡ † * ≠
Non-executive Director

David Gibson qualified as a certified accountant whilst holding posts with Shell-Mex and BP and CIBA-Geigy throughout the UK and abroad, before transferring into treasury management in senior positions with Turner and Newall and Westland Helicopters where he qualified as a corporate treasurer. He joined the Trustee Savings Bank of the Channel Islands as finance director, prior to becoming general manager finance at TSB Retail Bank where he gained his formal qualifications as a banker. Prior to retiring from executive life for family reasons, he was group finance director of Portman Building Society for 9 years. He is currently deputy chairman of commercial property investment companies Chellbrook Properties plc and Mountstephen Investments Limited.

Appointment
Appointed to the Board on 12 February 2009. He is Chairman of Conister Bank Limited.

John Banks (49) ‡
Non-executive Director

John Banks is a solicitor qualified in both England and Wales and Hong Kong. He has worked in private practice with Lovells, in both England and Hong Kong and as an in house counsel for Standard Chartered Bank in Hong Kong. He joined Group Direct Limited, later part of Brightside Group PLC as group legal counsel in 2006, where he worked on the group's admission to trading on AIM. He joined Southern Rock Insurance Company Limited and Eldon Insurance Services Limited in 2013 and is a director of both companies.

Appointment
Appointed to the Board on 5 August 2014.

Non-executive Directors

Greg Bailey (62) ‡
Non-executive Director

Greg Bailey, founded Palantir Group Inc which made successful investments in bio-tech company start-ups and financings, and is currently chairman of Portage Biotech Inc, a CSE-traded drug development company, and non-executive director of AIM-traded SalvaRx Group Plc. Along with comprehensive experience in finance and healthcare, he has served on many public company boards and brings to the Group an extensive involvement in corporate governance.

Appointment
Appointed to the Board on 7 February 2018.

Company Secretary

Lesley Crossley (50)
Company Secretary

Lesley Crossley is a Fellow of the Chartered Institute of Secretaries and Administrators and has over 30 years of wide ranging experience in the financial services industry, both in the UK and Isle of Man. Prior to joining Manx Financial Group PLC, she held the position of Company Secretary for Scottish Provident International based on the Isle of Man.

Appointment
Appointed as Company Secretary on 29 September 2008.

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

Advisers

Registered Office
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Douglas
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Registered Agent
CW Corporate Services Limited
Bank Chambers
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Legal Advisers
As to Isle of Man law
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Douglas
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As to English law
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Independent Auditor
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Heritage Court
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Douglas
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Principal Bankers
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Consulting Actuaries
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Douglas
Isle of Man IM2 2QZ

Pension Fund Investment Manager
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Samuel Harris House
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Douglas
Isle of Man IM1 1AJ

Nominated Advisor and Broker
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2nd Floor
Bowman House
29 Wilson Street
London EC2M 2SJ

Registrar
Computershare Investor Services (Jersey) Limited
Queensway House
Hilgrove Street
St Helier
Jersey JE1 1ES

Presentation of Annual Report and Accounts
Presented here are the Annual Report and Accounts of Manx Financial Group PLC.

Company Information
The Annual and Interim Reports, along with other supplementary information of interest to Shareholders, are included on our website. The address of the website is www.mfg.im which includes investor relations information and contact details.

The Directors present their annual report and the audited financial statements for the year ended 31 December 2017.

Principal regulated activities

The principal activities of Manx Financial Group PLC (the "Company") and its subsidiaries (together referred to as the "Group") are the provision of asset and personal finance, investing activities, prepaid cards and wealth management.

The Bank, a wholly owned subsidiary of the Company, holds a Class 1 deposit taking licence issued under Section 7 of the Isle of Man Financial Services Act 2008. Deposits made with the Bank are covered by the Isle of Man Depositors' Compensation Scheme contained in the Banking Business (Compensation of Depositors) Regulations 1991.

EWA is authorised by the Isle of Man Financial Services Authority under section 7 of the Financial Services Act 2008 to conduct investment business as a Class 2, sub-classes (3), (6) and (7) licence holder.

Results and dividends

The proposed transfers to and from reserves are as set out in the Statement of Changes in Equity on page 23. The Directors do not recommend the payment of a dividend (2016: nil).

Share capital

Particulars of the authorised and issued share capital of the Company are set out in note 28 to the financial statements.

Significant shareholdings

The number of shares held and the percentage of the issued shares which that number represented as at 9 February 2018 are:-

	Number	% of issued capital
Rene Nominees (IOM) Limited[1]	38,153,158	29.10
Jim Mellon	21,492,232	16.39
Greg Bailey	17,835,750	13.60
Lynchwood Nominees Limited	10,338,045	7.92
Island Farms Limited	4,222,319	3.22

[1] Together with other holdings, Arron Banks, a former Director of the Group, is beneficially interested in 38,153,158 ordinary shares (29.10%) of which 8,333,333 ordinary shares are held by Rene Nominees (IOM) Limited in trust for ICS Risk Solutions Limited, of which John Banks is a Director, and 1,443,833 ordinary shares held in trust for Marquise Holdings Limited of which John Banks' underage children, and Arron Banks' underage children are beneficiaries under trust.

The Directors are not aware of any other individual holding of greater than 3% as at 9 February 2018.

Directors and Directors' share interests

Details of current Directors are set out on page 5. Juan Kelly resigned on 28 March 2017 and Neil Duggan retired on 30 June 2017.

The number of shares held by the current Directors is as follows: -

	Number 09/02/18	Number 31/12/17	Number 31/12/16
Jim Mellon[1]	21,492,232	21,492,232	17,635,332
Greg Bailey	17,835,750	17,835,750	-
John Banks[2]	1,433,833	1,433,833	2,336,833
David Gibson[3]	1,721,433	1,721,433	1,721,433
Douglas Grant	505,821	505,821	505,821
Alan Clarke	52,149	52,149	52,149

[1] Burnbrae Limited holds 19,164,250 Ordinary Shares. Jim Mellon, Executive Chairman of Manx Financial Group plc ("MFG"), is a Director of Burnbrae Limited. Burnbrae Limited is beneficially owned by Jim Mellon. Denham Eke, CEO of MFG, is also a Director of Burnbrae Limited. Pershing Nominees Limited holds 968,666 Ordinary Shares and Vidacos Nominees holds 666,666 Ordinary Shares for the benefit of Jim Mellon.

[2] Comprises 1,433,833 Ordinary Shares held by Rene Nominees (IOM) Limited in trust for Marquise Holdings Limited of which John Banks' underage children, and Arron Banks' underage children are beneficiaries under trust.

[3] Comprises 1,721,433 Ordinary Shares held by Interactive Investor Services Limited for the benefit of David Gibson.

The number of share options held by the current Directors is as follows: -

	Number 09/02/18	Number 31/12/17	Number 31/12/16
Douglas Grant	1,042,466	1,042,466	1,042,466

Directors' liability insurance

The Group maintains insurance cover for Directors' potential liability.

Fixed and intangible assets

The movement in fixed and intangible assets during the year are set out in notes 19 and 20 respectively to the financial statements.

Staff

At 31 December 2017, there were 91 members of staff (2016: 73), of whom 13 were part-time (2016: 6).

Investment in subsidiaries

Investments in the Company's subsidiaries are disclosed in note 21 to the financial statements.

Auditor

KPMG Audit LLC, being eligible, have expressed their willingness to continue in office.

Corporate Governance Report

The Manx Financial Group Board (the "Board") is committed to best practice in corporate governance and Manx Financial Group PLC (the "Group"). Directors have agreed to comply with the provisions of the Quoted Companies Alliance ("QCA") Corporate Governance Code for Small and Mid-Size Quoted Companies to the extent which is appropriate to its nature and scale of operations.

This report illustrates how the Group complies with those principles.

Remuneration Committee

The Remuneration Committee meet at least twice a year and comprises of two Non-executive Directors, with the Executive Directors, Head of Human Resources and external advisers attending by invitation when appropriate. It is chaired by Alan Clarke, and is responsible for determining the remuneration of the Executive Directors, the Company Secretary and other members of the management. Committee members do not take part in discussions concerning their own remuneration.

Nomination Committee

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

Group Audit, Risk and Compliance Committee

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

Further information can be found within the Group Audit, Risk and Compliance Report contained within this Annual Report.

The Role of the Board

The Board is collectively responsible for the long-term success of the organisation. Its principal function is to determine the strategy and policies of the Group within an effective control framework which enables risk to be assessed and managed.

The Board ensures that the necessary financial and human resources are in place for the Group to meet its objectives and that business and management performances are reviewed. Furthermore, the Board ensures that the Group operates within its constitution, relevant legislation and regulation and that proper accounting records and effective systems of business control are established, maintained, documented and audited.

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

Division of Responsibilities

The offices of Chairman and Chief Executive Officer are distinct and held by different people. The role of each is set out in their respective job descriptions.

The Chairman

The Chairman is responsible for leading the Board, ensuring its effectiveness in all aspects of its role, promoting a culture of openness of debate and communicating with the Group's members on behalf of the Board. The Chairman sets the direction of the Board and promotes a culture of openness and debate by facilitating the effective contribution of Non-executive Directors and ensuring constructive relations between Executive and Non-executive Directors. The Chairman also ensures that Directors receive accurate, timely and clear information. In doing so, this fosters a positive corporate governance culture throughout the Group.

The Chief Executive Officer

The Chief Executive Officer is responsible for managing the Group's business and operations within the parameters set by the Board.

Non-executive Directors

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

The Composition of the Board

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

Appointments to the Board

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

All Director appointments must be approved by the Company's Nominated Adviser, as required under the AIM Rules, before they are appointed to the Board.

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

Information and Support

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

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

Evaluation

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

Re-election

The Group's Rules require that all Directors are submitted for election at the AGM following their first appointment to the Board and one third of the Directors are subject to retirement by rotation on an annual basis to refresh the Board, irrespective of performance.

Board and committee attendance

The number of formal scheduled Board and committee meetings held and attended by Directors during the year was as follows: -

	Board	Audit	Remuneration	Nomination
Jim Mellon	3/4	-	-	0/3
John Banks	4/4	-	-	1/3
Denham Eke	4/4	-	-	2/3
Alan Clarke	3/4	7/7	8/8	2/3
David Gibson	4/4	7/7	8/8	3/3
Douglas Grant	4/4	-	-	3/3
Neil Duggan[1]	1/2	2/2	-	0/1

[1] Neil Duggan retired on 30 June 2017.

Financial and Business Reporting

The Board confirms that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. The responsibilities of the Directors in relation to the preparation of the Group's accounts are set out on page 15. The Chairman's Statement on pages 2 to 4 provides a detailed review of the Group's business activities and future prospects.

Risk Management and Internal Control

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

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

Remuneration

The Report on Directors' Remuneration, prepared by the Chairman of the Group's Remuneration Committee, is to be found on pages 13 and 14 and explains how the Group complies with the Code Principles relating to remuneration. Details of Directors' Emoluments during 2017 can be found on page 14.

Dialogue with Shareholders

The Group is owned by both individual and institutional shareholders. All shareholders are kept informed of developments and feedback is encouraged both at the AGM and through communication via the Group's website.

Constructive use of the AGM

Each year the Group sends details of the AGM, including appointment of proxy and voting forms, to members who are eligible to vote.

Approval

This report was approved by the Board of Directors on 15 March 2018 and signed on its behalf by: -

Jim Mellon
Executive Chairman
15 March 2018

Audit, Risk and Compliance Committee Report

The Directors have agreed to comply with the provisions of the Quoted Companies Alliance ("QCA") Corporate Governance Code for Small and Mid-Size Quoted Companies to the extent which is appropriate to its nature and scale of operations.

This report illustrates how the Group complies with those principles in relation to its Group Audit, Risk and Compliance Committee (the "Committee"): -

Membership

The Committee comprises of two Non-executive Directors and the members are Alan Clarke (Chairman) and David Gibson. The composition of the Committee has been reviewed during the year and the Board is satisfied that the Committee members have recent relevant financial experience and the expertise to resource and fulfil its responsibilities effectively, including those relating to risk and controls.

Meetings

The Committee meets six times a year of which two of these meetings are to review the interim and full year results. Executive Directors and representatives from the compliance and risk, the internal and external auditors attend by invitation.

Duties

The Committee carries out the duties below for the Company and the Group as a whole, as appropriate: -

- Monitors the integrity of the financial statements of the Company, including annual and half-yearly reports, interim management statements, and any other formal announcement relating to financial performance, reviewing significant financial reporting issues and judgements which they contain.

- Reviews and challenges the consistency the information presented within the financial statements, compliance with stock exchange or other legal requirements, accounting policies and the methods used to account for significant or unusual transactions.

- Keeps under review the effectiveness of the Group's internal controls and risk management systems.

- Reviews the Group's arrangements for its employees to raise, in confidence, possible wrongdoing in financial reporting or other matters, the procedures for detecting fraud, prevention of bribery and adequacy and effectiveness of the Group's anti-money laundering systems and control.

- Monitor and reviews the effectiveness of the Group's internal audit function and in the context of the Group's overall risk management system. Ensuring that the internal audit function has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant with professional standards. It also reviews the annual internal audit plan, receives reports from internal audit and monitors the management's responsiveness to the findings and recommendations of the Internal Audit Manager. The activities of the Group's internal audit function are undertaken in-house and are overseen by the Executives and have direct access to the Committee Chairman.

- KPMG Audit LLC was appointed as auditor following the incorporation of the Group and the Committee overseas the relationship with them including regular meetings to discuss their remit and review the findings and any issues with the annual audit. It also reviews their terms of appointment, meets them once a year independent of management and considers and makes recommendations to the Board, to be put to the Company for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor. There are no contractual restrictions in place in respect of the auditor choice.

- The Committee is governed by a Terms of Reference and a copy of this is available on, www.mfg.im, the Company's website.

2017 Annual Report

During the year the Committee held seven meetings and can confirm that it has received sufficient, reliable and timely information from management and the external auditors to enable it to fulfil its responsibilities. The Head of Risk and Compliance and the Head of Internal Audit have attended four of these meetings this year in order to present their reports and to enable challenge and review by the Committee. Other members of the Executive Team have attended the meetings upon invitation.

The Committee has satisfied itself that there are no relationships between the auditor and the Group which could adversely affect the auditor's independence and objectivity and regular meetings have been held with them at both the planning stage prior to the audit and after the audit at the reporting stage.

All internal control and risk issues that have been brought to the attention of the Committee by the internal and external auditors have been considered and the committee confirms that it is satisfied that management has addressed the issues or has plans to do so.

The Group has a number of policies and procedures in place as part of its internal controls and these are subject to continuous review and as a minimum are reviewed by the Committee on an annual basis.

The Committee has reviewed and discussed together with management and the external auditor the Company's financial statements for the year ended 31 December 2017 and reports from the external auditor on the planning for and outcome of their reviews and audit. The key accounting issues and judgements considered relating to the Group's financial statements and disclosures were as follows: -

- Impairment of loans and advances – during the year the Committee received presentations from management explaining the provisioning methodology and the potential impact of IFRS 9 Financial Instruments. The Committee satisfied itself that the impairment provisions, including management's judgements, were appropriate. Disclosures relating to impairment provisions are included in notes 4 (a)(i), 9 and 18;

- Recoverability of goodwill and intangible assets – the Committee considered and challenged the annual assessment of the carrying value of goodwill and intangible assets. The Committee agreed with management's conclusion that the carrying value of goodwill and intangible assets is reasonably stated. Disclosures relating to goodwill and intangible assets are included in notes 20 and 21; and

- Value added tax receivable - the Committee received updates from management on the progress of the Volkswagen Financial Services (UK) Limited v HM Revenue & Customs case and discussions with the Isle of Man Government Customs and Excise Division, and satisfied itself that the value added tax receivable is considered recoverable. Disclosures relating to the receivable are included in note 22.

Alan Clarke
Chairman
15 March 2018

Directors' Remuneration Report

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

The Directors have agreed to comply with the provisions of the Quoted Companies Alliance ("QCA") Corporate Governance Code for Small and Mid-Size Quoted Companies to the extent which is appropriate to its nature and scale of operations.

This report illustrates how the Group complies with those principles in relation to directors' remuneration.

The Level and Components of Executive Director Remuneration

The Group's Remuneration Policy reflects the Group's business strategy and objectives as well as sustained and long-term value creation for shareholders. In addition, the policy aims to be fair and provide equality of opportunity, ensuring that: -

- the Group is able to attract, develop and retain high-performing and motivated employees in the competitive local and wider UK markets;
- employees are offered a competitive remuneration package to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contribution to the success of the Group;
- it reflects our culture and values; and
- there is full transparency of the Group's Remuneration Policy.

In line with the Board's approach, which reflects that adopted within other comparable organisations, the Group's Remuneration Policy provides for the reward of Executive Directors through salaries and other benefits.

Executive Directors' Emoluments

The remuneration for Executive Directors reflects their responsibilities. It comprises basic salary, performance related variable pay when this is considered appropriate, and various benefits detailed below.

Performance related payments are not pensionable and are not contracted.

As with staff generally, whose salaries are subject to annual reviews, basic salaries payable to Executive Directors are reviewed each year with reference to jobs carrying similar responsibilities in comparable financial organisations, market conditions generally and local employment competition in view of the Group's geographical position.

The Group operates a non-contractual discretionary annual performance related pay scheme based on the trading performance of the Group and the individual employee's performance assessed for the period under review in a manner which promotes sound risk management and does not promote excessive risk taking.

The non-contractual discretionary annual performance related pay scheme may be paid in one year but that does not confer any entitlement in future years.

Performance assessments are conducted annually to determine the performance rating of each employee's achievements against a mix of targets set and agreed at the beginning of each year between the employee and their manager. No incentives are paid to employees or executives where the performance rating reflects below an agreed expected level for the role employed.

The non-contractual discretionary annual performance related pay scheme may be disbursed as a cash payment through payroll, share based instruments (including share options) or a mixture of both. An element of deferment to align the interests of the employee to the longer term performance of the Group may also be included.

Financial Advisors are salaried and commission is calculated on a pre-agreed percentage over target which is set at between 2 to 3 times annual gross salary depending on the size of the Advisor's client base and their historical performance. Each Financial Advisor is set objectives at the beginning of the year including a 100% pass in all compliance requirements. Where indemnified commission is paid and the underlying client policy lapses and the commission is clawed back then this is reviewed by an Executive Director in order to monitor trends and is then clawed back from the relevant Financial Advisor.

Where the Group operates contractually guaranteed performance related pay, the contractual conditions must be considered by the Remuneration Committee.

Executive Directors' Contractual Terms

In keeping with current recommended practice, the standard terms for Executive Director appointments, which have a contractual notice period, is 6 months.

Non-executive Directors' Remuneration

Non-executive Directors do not receive any benefits other than their fees and travelling expenses for which they are reimbursed. The level of fees payable to Non-executive Directors is assessed using benchmarks from a group of comparable financial organisations.

The Procedure for Determining Remuneration
The Remuneration Committee, comprising two Non-executive Directors, is responsible for setting the remuneration of the Executive Directors and is chaired by Alan Clarke. Committee members do not take part in discussions concerning their own remuneration. The basic Non-executive Director fee is set by the Group Chairman. The Chairman of the Committee reports at the Board meeting following a Committee meeting.

It is the view of the Committee that Directors' remuneration awarded across the Group for the year has been in accordance with the Group's stated Remuneration Policy and, on behalf of the Committee I recommend that you endorse this Group report. An analysis of Directors' emoluments is as follows: -

Directors' emoluments

	Remuneration/ Fees £	Performance Related Pay £	Pension £	**2017 Total £**	2016 Total £
Executives					
Denham Eke	25,000	-	-	**25,000**	25,000
Douglas Grant	169,999	36,000	16,987	**222,986**	199,020
Juan Kelly[1]	43,826	-	3,892	**47,718**	195,594
Jim Mellon	25,000	-	-	**25,000**	25,000
Non-executives					
John Banks	25,000	-	-	**25,000**	25,000
Alan Clarke	43,000	-	-	**43,000**	40,000
Neil Duggan[2]	20,000	-	-	**20,000**	40,000
David Gibson	47,500	-	-	**47,500**	40,000
Aggregate emoluments	399,325	36,000	20,879	**456,204**	589,614

1 Juan Kelly resigned on 28 March 2017.
2 Neil Duggan retired on 30 June 2017.

Approval
This report was approved by the Board of Directors on 15 March 2018 and signed on its behalf by: -

Alan Clarke
Chairman of the Remuneration Committee
15 March 2018

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

The Directors are required to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU), as applicable to an Isle of Man Company and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Isle of Man Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report, to the members of Manx Financial Group PLC

1 Our opinion is unmodified

We have audited the financial statements of Manx Financial Group PLC ("the Company") for the year ended 31 December 2017 which comprise the Consolidated Income Statement, Consolidated Statement of Other Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated Statement of Cash Flows and the Consolidated and Company Statements of Changes in Equity, and the related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), as applicable to an Isle of Man Company; and
- have been prepared in accordance with the requirements of the Isle of Man Companies Act 2006.

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

We draw attention to note 22 to the financial statements concerning a reclaim of VAT in relation to a revised Partial Exemption Special Method. The Group's total exposure in relation to this matter is £930,000, comprising a debtor balance of £817,000 in respect of retrospective VAT and an amount of £113,000 reclaimed under the revised method. As detailed in note 22, the ultimate recovery of the debtor balance and the decision as to whether the VAT already reclaimed will be required to be repaid rests on the outcome of discussions with the Isle of Man Government Customs and Excise Division ("C&E"), which in turn will take into account the final resolution of the dispute between Volkswagen Financial Services (UK) Limited v HM Revenue & Customs (the "VWFS case"). Due to the inherent uncertainty associated with the final resolution of the VWFS case and its impact on discussions with C&E, the amount of the VAT debtor balance recovered and the amount of the sum already reclaimed that will be required to be repaid may differ materially from the amounts stated in the financial statements. Our opinion is not modified in respect of this matter.

Basis for opinion

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

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Key audit matter	The risk	Our response
Loan impairment Consolidated Statement of Financial Position: Impairment Provision £2,513,000 (2016: £2,156,000). Consolidated Income Statement: Provision for Impairment of Loan Assets £535,000 (2016: £447,000). Refer to note 3(e) (Accounting Policy for Impairment of financial assets, note 3(p) (Key Sources of Estimation Uncertainty), note 4(a)(i) (Credit Risk) and note 18 (Loans and Advances to Customers).	**Subjective estimate** Loan impairment provisions reflect estimates of the amount and timing of future recoveries which require an assessment of matters such as future economic conditions and the value of collateral. Estimates, by their nature, give rise to a higher risk of material misstatement due to error or fraud.	Our procedures included: - **Control design and operating effectiveness:** Understanding and testing the controls in respect of the Group's loan impairment process such as the timely recognition of impairment provisions, the completeness and accuracy of reports used in the loan impairment process and management review processes over the calculation of collective and specific provisions. - **Test of details:** We tested a sample of specific provisions against individually significant impaired loans including challenging collateral values and discount rates assumed in the provisions. - **Historical comparison:** We tested the inputs used in collective impairment models and considered whether those inputs reflected default and recovery experience across each of the loan finance categories. - **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the degree of estimation uncertainty involved at arriving at the provisions.

Independent Auditor's Report, to the members of Manx Financial Group PLC (continued)

2 Key audit matters: our assessment of risks of material misstatement (continued)

Key audit matter	The risk	Our response
Recoverability of goodwill and intangible assets Consolidated Statement of Financial Position: Goodwill £2,344,000 (2016: £2,344,000) and Intangibles Assets £1,719,000 (2016: £1,316,000). Consolidated Income Statement: Amortisation and Impairment of Intangible Assets £286,000 (2016: £80,000). Refer to note 3(b) (Accounting Policy for Business Combinations), note 3(c) (Accounting Policy for Property, Plant & Equipment and Intangible Assets), note 3(p) (Key Sources of Estimation Uncertainty), note 20 (Intangible Assets) and note 21 (Investment in Group Undertakings).	**Forecast-based valuation** Goodwill and intangible assets are significant and the estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.	Our procedures included: - **Control design and operating effectiveness:** Understanding and testing the controls in respect of the Group's goodwill and intangibles assets impairment review process such as the timely recognition of impairment provisions and the completeness and accuracy of reports used in the impairment review process. - **Test of details:** Where external valuation experts were engaged by the Group, we assessed the credentials of the experts, compared the information supplied to the experts to source data, assessed the assumptions used and considered whether, in our opinion, the experts' opinions were reasonable in circumstances. - **Test of details:** Where external valuation experts were not engaged, we compared the forecasts and assumptions included in the calculations of net present value used by the client for impairment testing to historical data and assessed whether they were reasonable. - **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the degree of estimation uncertainty involved in performing the impairment assessments.
VAT receivable Consolidated Statement of Financial Position: VAT receivable exposure £930,000 (2016: £865,000). Refer to note 3(p) (Key Sources of Estimation Uncertainty) and note 22 (Trade and Other Receivables).	**Uncertainty over recoverability** The VAT receivable exposure is significant and its recoverability rests on the outcome of discussions with the Isle of Man Government Customs and Excise Division, which in turn will take into account the final resolution of the dispute between Volkswagen Financial Services (UK) Limited v HM Revenue & Customs.	Our procedures included: - **Test of details:** Assessed the latest discussions between the Group and C&E and the latest position regarding the VWFS case. - **Test of details**: Tested the calculations prepared by the Group based on the revised Partial Exemption Special Method. - **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the degree of estimation uncertainty involved in assessing the recoverability of this balance.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group and Parent Company financial statements as a whole was set at £140,000, determined with reference to a benchmark of Group profit before tax, of which it represents 5%.

In the prior year, materiality was set at £520,000, determined with reference to a benchmark of net assets, of which it represented 4%. The benchmark used for materiality was changed as a result of a reassessment of the benchmark which was most relevant to users of the accounts.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £7,000 for both the Group and Parent Company financial statements, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group's subsidiaries were subjected to full scope statutory audit by the Group audit team and subject to a lower level of materiality based on their individual financial statements.

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Independent Auditor's Report, to the members of Manx Financial Group PLC (continued)

5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information, which comprises the Chairman's Statement, the Directors' Report, the Corporate Governance Report and the Directors' Remuneration Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Based solely on that work:

- we have not identified material misstatements in the other information; and
- in our opinion the information given in the Directors' Report for the financial year is consistent with the financial statements.

6 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 15, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

This report is made solely to the Company's members, as a body, in accordance with Section 80(c) of the Isle of Man Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

For the year ended 31 December	Notes	2017 £000	2016 £000
Interest income	6	19,893	19,369
Interest expense	10	(3,256)	(3,368)
Net interest income		16,637	16,001
Fee and commission income		3,115	1,660
Fee and commission expense		(8,413)	(9,106)
Net trading income		11,339	8,555
Other operating income		91	198
Terminal funding	3(u)	90	(154)
Operating income		11,520	8,599
Personnel expenses	7	(4,783)	(3,935)
Other expenses	8	(3,152)	(2,706)
Provision for impairment on loan assets	9	(535)	(447)
Loss on financial assets carried at fair value	15	(21)	(6)
Realised gains on available for sale financial assets	16	36	71
Depreciation	19	(134)	(246)
Amortisation and impairment of intangibles	20	(286)	(80)
Change in share of net assets of associate	21	38	-
VAT recovery	22	65	295
Profit before tax payable	10	2,748	1,545
Tax payable	11	(240)	(244)
Profit for the year after taxation		2,508	1,301
Basic earnings per share (pence)	12	2.26	1.27
Diluted earnings per share (pence)	12	1.77	0.87

The notes on pages 24 to 54 form part of these financial statements.

The Directors believe that all results derive from continuing activities.

For the year ended 31 December	Notes	2017 £000	2016 £000
Profit for the year		2,508	1,301
Other comprehensive income: -			
Items that will be reclassified to profit or loss			
Unrealised losses on available for sale financial instruments taken to equity	16	(93)	(8)
Items that will never be reclassified to profit or loss			
Actuarial gains / (losses) on defined benefit pension scheme taken to equity	27	30	(316)
Total comprehensive income for the period attributable to owners		2,445	977
Basic earnings per share (pence)	12	2.21	0.96
Diluted earnings per share (pence)	12	1.73	0.68

The notes on pages 24 to 54 form part of these financial statements.

		Group		Company	
As at 31 December	Notes	2017 £000	2016 £000	2017 £000	2016 £000
Assets					
Cash and cash equivalents	14	9,745	6,129	200	-
Financial assets at a fair value through profit or loss	15	24	70	-	-
Available for sale financial instruments	16	28,740	23,991	-	-
Held to maturity financial instruments	17	5,532	-	-	-
Loans and advances to customers	18	122,720	116,053	-	-
Commissions receivable		465	332	-	-
Property, plant and equipment	19	450	719	166	207
Intangible assets	20	1,719	1,316	-	-
Investment in Group undertakings	21	-	-	13,772	12,072
Investment in associate	21	38	-	-	-
Amounts due from Group undertakings	21	-	-	16	296
Trade and other receivables	22	1,443	1,732	22	29
Subordinated loans	21	-	-	5,778	5,178
Goodwill	21	2,344	2,344	-	-
Total assets		173,220	152,686	19,954	17,782
Liabilities					
Customer accounts	23	142,272	125,952	-	-
Creditors and accrued charges	24	3,164	2,975	139	82
Block creditors	25	751	1,390	-	-
Amounts owed to Group undertakings	21	-	-	2,517	2,499
Loan notes	26	8,995	8,545	8,995	8,545
Pension liability	27	560	614	-	-
Deferred tax liability	11	42	40	-	-
Total liabilities		155,784	139,516	11,651	11,126
Equity					
Called up share capital	28	20,732	18,933	20,732	18,933
Profit and loss account		(3,296)	(5,763)	(12,429)	(12,277)
Total equity		17,436	13,170	8,303	6,656
Total liabilities and equity		173,220	152,686	19,954	17,782

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

Jim Mellon	**Denham Eke**	**Douglas Grant**
Executive Chairman	Chief Executive Officer	Group Finance Director

The notes on pages 24 to 54 form part of these financial statements.

For the year ended 31 December	Notes	2017 £000	2016 £000
RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS			
Profit before tax on continuing activities		2,748	1,545
Loss on financial assets carried at fair value	15	21	6
Change in share in net assets of associate	21	(38)	-
Depreciation	19	134	246
Amortisation and impairment of intangibles	20	286	80
Actuarial gain / (loss) on defined benefit pension scheme taken to equity	27	30	(316)
(Decrease) / increase in pension liability	27	(54)	280
Share-based payment expense	10, 28	22	46
Decrease / (increase) in trade and other receivables		290	(355)
(Decrease) / increase in trade and other payables		(49)	47
(Increase) / decrease in commission debtors		(133)	29
Net cash inflow from trading activities		3,257	1,608
Increase in loans and advances to customers		(6,667)	(14,697)
Increase in deposit accounts		16,320	19,624
Cash inflow from operating activities		12,910	6,535
CASH FLOW STATEMENT			
Cash flows from operating activities			
Cash inflow from operating activities		12,910	6,535
Taxation paid		-	(36)
Net cash inflow from operating activities		12,910	6,499
Cash flows from investing activities			
Purchase of property, plant and equipment	19	(122)	(93)
Purchase of intangible assets	20	(213)	(50)
Sale of tangible fixed assets	19	20	-
Acquisition of Manx Financial Limited	21	-	(500)
Acquisition of MBL business	20	(239)	(948)
Purchase of available for sale financial instruments	16	(4,842)	(8,017)
Purchase of held to maturity financial instruments	17	(5,532)	-
Sale of financial assets at fair value through profit or loss	15	24	-
Net cash outflow from investing activities		(10,904)	(9,608)
Cash flows from financing activities			
Receipt of loan notes	26	450	1,280
Increase in share capital	28	1,799	-
(Decrease) / increase in borrowings from block creditors	25	(639)	802
Net cash inflow from financing activities		1,610	2,082
Increase / (decrease) in cash and cash equivalents		3,616	(1,027)
Included in cash flows are: -			
Interest received – cash amounts		19,109	18,628
Interest paid – cash amounts		(3,152)	(3,260)

The notes on pages 24 to 54 form part of these financial statements.

For the year ended 31 December Group	Share Capital £000	Retained Earnings £000	2017 £000	2016 £000
Balance as at 1 January	18,933	(5,763)	13,170	12,147
Profit for the year	-	2,508	2,508	1,301
Other comprehensive income	-	(63)	(63)	(324)
Transactions with owners: -				
Share-based payment expense (see notes 10 and 28)	-	22	22	46
Shares issued (see note 28)	1,799	-	1,799	-
Balance as at 31 December	20,732	(3,296)	17,436	13,170

For the year ended 31 December Company	Share Capital £000	Retained Earnings £000	2017 £000	2016 £000
Balance as at 1 January	18,933	(12,277)	6,656	6,729
Loss for the year	-	(174)	(174)	(119)
Transactions with owners: -				
Share-based payment expense (see notes 10 and 28)	-	22	22	46
Shares issued (see note 28)	1,799	-	1,799	-
Balance as at 31 December	20,732	(12,429)	8,303	6,656

The notes on pages 24 to 54 form part of these financial statements.

1. Reporting entity

Manx Financial Group PLC is a company incorporated in the Isle of Man. The consolidated financial statements of Manx Financial Group PLC (the "Company") for the year ended 31 December 2017 comprise the Company and its subsidiaries (the "Group").

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

2. Basis of preparation

(a) Statement of compliance

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

The Group has continued to apply the accounting policies used for the 2016 annual report, with the exception of those detailed below.

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

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

There are no significant changes following the implementation of these standards and amendments.

(b) Basis of measurement

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

- financial instruments at fair value through profit or loss and available for sale financial instruments are measured at fair value; and
- equity settled share-based payment arrangements are measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

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.

3. Significant accounting policies (continued)

(b) Accounting for business combinations

Business combinations are accounted for by using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as: -

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement.

(c) Property, plant and equipment and intangible assets

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

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

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

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

Intangible assets that are acquired by an entity and having finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets acquired as part of a business combination, with an indefinite useful live are measured at fair value. Intangible assets with indefinite useful lives are not amortised but instead are subject to impairment testing at least annually.

Depreciation and amortisation

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

Property, plant and equipment	
Leasehold improvements	to expiration of the lease
Equipment	4-5 years
Vehicles	4 years
Furniture	10 years
Intangible assets	
Customer contracts and lists	to expiration of the agreement
Business intellectual property rights	4 years - indefinite
Website development costs	indefinite
Software	5 years

3. Significant accounting policies (continued)

(d) Financial assets

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

Loans and receivables

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

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

Financial assets at fair value through profit or loss

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

Available for sale financial instruments

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

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

Held to maturity financial instruments

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

Investments in subsidiary undertakings

Investments in subsidiary undertakings in the parent company statement of financial position are measured at cost less any provision for impairment.

Fair value

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

(e) Impairment of financial assets

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

(f) 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.

(g) Financial liabilities

Financial liabilities consist of customer deposit accounts, other creditors, loan notes, block 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.

(h) Long term employee benefits

Pension obligations

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

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

Under the defined benefit pension plan, in accordance with IAS 19 Employee benefits, the full service cost for the period, adjusted for any changes to the plan, is charged to the income statement. 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 income statement.

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 income statement 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 high quality rated corporate bonds.

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

Share-based compensation

The Group maintains a share option programme which allows certain Group employees to acquire shares of the Group. The change in the fair value of options granted is recognised as an employee expense with a corresponding change in equity. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options.

At each reporting date, the Group revises its estimate of the number of options that are expected to vest and recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The share option programme was originally set up for Group employees to subscribe for shares in Conister Trust Limited (now Conister Bank Limited). Since the Scheme of Arrangement, the shareholders of the Bank became shareholders of the Company. The share option programme is now operated by the Company. The fair value is estimated using a proprietary binomial probability model. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

(i) Leases

A Group company is the lessor

Finance leases and HP contracts

When assets are subject to a finance lease or HP contract, the present fair 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.

3. Significant accounting policies (continued)
(i) Leases (continued)

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 income statement on a straight-line basis over the period of the lease.

(j) Current and deferred taxation

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

(k) Interest income and expense

Interest income and expense are recognised in the income statement 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.

(l) Fees and commission income

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

(m) Programme costs

Programme costs are direct expenditure incurred in relation to prepaid card programmes. The costs are recognised over the period in which income is derived from operating the programmes.

(n) Segmental reporting

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

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

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

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

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

The impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income, loan receivables, certain loan commitments and financial guarantee contracts. At initial recognition, an allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months ("12-month ECL"). In the event of a significant increase in the credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Financial assets where 12-month ECL is recognised are considered to be Stage 1; financial assets, which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets, for which there is objective evidence of impairment, so are considered to be in default or otherwise credit impaired, are in Stage 3.

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

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

3. Significant accounting policies (continued)

(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, goodwill, intangible assets and the recoverability of the value added tax (“VAT”) receivable. Loans and advances to customers are evaluated for impairment on a basis described in note 4a(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 and provisions for counter claims and legal costs depend on how closely the estimated future cash flows mirror actual experience. An impairment review is performed annually for goodwill and intangible assets at different discount rates to allow for any uncertainty. The assessment of the recoverability of the VAT receivable balance is based on current discussions with the Isle of Man Government Customs and Excise Division and the status of the Volkswagen Financial Services (UK) Limited v HM Revenue & Customs (TC01401) case (see note 22).

(q) 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 interest income and recognised on an accruals basis.

(r) Prepaid card funds

The Group could receive funds for its prepaid card activities. These funds would be held in a fiduciary capacity for the sole purpose of making payments as and when card-holders utilise the credit on their cards and therefore would not be recognised in the statement of financial position.

(s) Foreign exchange

Foreign currency assets and liabilities (applicable to the Conister Card Services division only) are translated at the rates of exchange ruling at the reporting date. Transactions during the year are recorded at rates of exchange in effect when the transaction occurs. The exchange movements are dealt with in the income statement.

(t) Interests in equity accounted investees

The Group’s interests in equity accounted investees may comprise interests in associates and joint ventures.

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

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

(u) Terminal funding

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

	2017 £000	2016 £000
Interest income	377	601
Fee and commission expense	(92)	(166)
Provision for impairment on loan assets	(195)	(589)
	90	(154)

4. Risk and capital management

(a) Risk management

Introduction and overview

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

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

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for managing risk and capital within the Bank. The Bank is the main operating entity exposed to these risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework within the Group. 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 Board of Directors of the Bank (the "Board of the Bank") delegate responsibility for risk management to the Executive Risk Committee ("ERC") which reports to the Audit, Risk and Compliance Committee ("ARCC"). It is responsible for the effective risk management of the Bank. Operational responsibility for asset and liability management is delegated to the Executive Directors of the Bank, through the Bank's Assets and Liabilities Committee ("ALCO").

ARCC is responsible for monitoring compliance with the risk management policies and procedures faced by the Group's regulated entities, and for reviewing the adequacy of the risk management framework. 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 Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure, such as individual obligor default, country and sector risk. The Bank is principally exposed to credit risk with regard to loans and advances to customers, comprising HP and finance lease receivables, unsecured personal loans, secured commercial loans, block discounting, stocking plan loans and wholesale funding agreements. It is also exposed to credit risk with regard to cash balances and trade and other receivables.

Management of credit risk

The Board of the Bank delegates 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 the Bank 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;
- limiting concentrations of exposure to counterparties, geographies and industries defining sector limits, lending caps and 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 of the Bank approval is obtained on all decisions of the CC above the limits set out in the Bank's credit risk policy.

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

Management of credit risk (continued)

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

	2017 £000	2016 £000
Carrying amount	**122,720**	116,053
Individually impaired[1]		
Grade A	**-**	-
Grade B	**-**	-
Grade C	**3,184**	3,010
Gross value	**3,184**	3,010
Allowance for impairment	**(2,440)**	(2,099)
Carrying value	**744**	911
Collective allowance for impairment	**(73)**	(57)
Past due but not impaired		
Less than 1 month	**2,922**	2,558
1 month but less than 2 months	**1,941**	1,314
2 months but less than 3 months	**1,012**	575
3 months and over	**1,296**	1,146
Carrying value	**7,171**	5,593
Neither past due nor impaired	**114,878**	109,606

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

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.

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 Bank's Debt Recovery Process Manual which is reviewed annually.

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, finances leases, vehicle stocking plans, block discounting and secured commercial loan balances, which are sub-categories of loans and advances to customers. In addition, the commission share schemes have an element of capital indemnified. During 2017, 41.7% of loans and advances fell into this category (2016: 54.4%).

4. Risk and capital management (continued)

(a) Risk management (continued)
i) Credit risk (continued)

Management of credit risk (continued)

Collateral (continued)

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. At the time of granting credit within the sub-categories listed above, the loan balances due are secured over the underlying assets held as collateral (see note 18 for further details).

Concentration of credit risk

Geographical

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

Segmental

The Bank is exposed to credit risk with regard to customer loan accounts, comprising HP and finance lease balances, unsecured personal loans, secured commercial loans, block discounting, vehicle stocking plan loans and wholesale funding agreements. In addition, the Bank lends via significant introducers into the UK. There was one introducer that accounted for more than 20% of the Bank's total lending portfolio at the end of 31 December 2017 (2016: one introducer).

(ii) Liquidity risk

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

Management of liquidity risk

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

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

Minimum liquidity

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

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

Measurement of liquidity risk

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

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

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

31 December 2017	Sight- 8 days £000	>8 days - 1 month £000	>1 month - 3 months £000	>3 months - 6 months £000	>6 months - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Total £000
Customer accounts	2,579	3,136	12,710	24,241	30,207	60,820	12,567	-	146,260
Other liabilities	3,094	89	318	1,540	1,754	3,326	3,322	560	14,003
Total liabilities	5,673	3,225	13,028	25,781	31,961	64,146	15,889	560	160,263

4. Risk and capital management (continued)

(a) Risk management (continued)

ii) Liquidity risk (continued)

Measurement of liquidity risk (continued)

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

31 December 2016	Sight-8 days £000	>8 days - 1 month £000	>1 month - 3 months £000	>3 months - 6 months £000	>6 months - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Total £000
Customer accounts	2,831	4,601	8,257	8,079	35,517	53,280	18,024	-	130,589
Other liabilities	3,026	90	198	301	2,509	3,787	3,691	614	14,216
Total liabilities	5,857	4,691	8,455	8,380	38,026	57,067	21,715	614	144,805

Maturity of assets and liabilities at the reporting date

31 December 2017	Sight-8 days £000	>8 days - 1 month £000	>1 month - 3 months £000	>3 months-6 months £000	>6 months - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Total £000
Assets									
Cash & cash equivalents	9,745	-	-	-	-	-	-	-	9,745
Available for sale financial instruments	-	1,998	16,983	2,992	-	-	6,767	-	28,740
Held to maturity financial instruments	-	-	-	5,532	-	-	-	-	5,532
Customer accounts receivable	3,713	3,654	7,956	10,823	25,886	54,950	15,717	21	122,720
Commission debtors	79	194	192	-	-	-	-	-	465
Other assets	24	-	-	-	-	-	-	5,994	6,018
Total assets	13,561	5,846	25,131	19,347	25,886	54,950	22,484	6,015	173,220
Liabilities									
Customer accounts	2,570	3,105	12,654	24,112	29,716	57,711	12,404	-	142,272
Other liabilities	3,086	55	234	169	3,333	2,945	3,130	560	13,512
Total liabilities	5,656	3,160	12,888	24,281	33,049	60,656	15,534	560	155,784

31 December 2016	Sight-8 days £000	>8 days - 1 month £000	>1 month - 3 months £000	>3 months-6 months £000	>6 months - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Total £000
Assets									
Cash & cash equivalents	6,129	-	-	-	-	-	-	-	6,129
Available for sale financial instruments	-	6,499	6,499	10,993	-	-	-	-	23,991
Customer accounts receivable	4,198	3,067	7,650	10,037	18,675	54,074	17,704	648	116,053
Commission debtors	29	110	193	-	-	-	-	-	332
Other assets	70	-	-	-	-	-	-	6,111	6,181
Total assets	10,426	9,676	14,342	21,030	18,675	54,074	17,704	6,759	152,686
Liabilities									
Customer accounts	2,840	4,597	8,235	8,028	34,988	50,931	16,333	-	125,952
Other liabilities	3,028	39	104	159	2,276	3,754	3,590	614	13,564
Total liabilities	5,868	4,636	8,339	8,187	37,264	54,685	19,923	614	139,516

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

(iii) Operational risk

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

(iv) Market risk

Market risk is the risk that changes in the level of interest rates, changes in the rate of exchange between currencies or changes in the price of securities and other financial contracts including derivatives will have an adverse financial impact. The primary market risk within the Group is interest rate risk exposure in the Bank. As at 31 December 2017 and 2016, the fair value of the financial instruments as presented in the interest risk table below are considered to be equal to their carrying amounts.

During the year, the Group was exposed to market price risk through holding available-for-sale financial instruments, and a financial asset carried at fair value through profit and loss. The only significant exposure relates to the financial asset carried at fair value through profit and loss, which is an equity investment stated at market value. Given the size of this holding, which was £24,000 at 31 December 2017 (2016: £70,000) the potential impact on the results of the Group is relatively small and no sensitivity analysis has been provided for the market price risk.

Interest rate risk

Interest rate risk exposure in the Bank 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 the Bank. The Bank 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 Bank. 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 Bank and its exposure to changes in interest rates.

Interest rate 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 their earliest.

31 December 2017	Sight- 1 month £000	>1month - 3months £000	>3months - 6months £000	>6months - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Non-Int. Bearing £000	Total £000
Assets									
Cash & cash equivalents	9,745	-	-	-	-	-	-	-	9,745
Available for sale financial instruments	1,998	16,983	2,992	-	-	6,767	-	-	28,740
Held to maturity financial instruments	-	-	5,532	-	-	-	-	-	5,532
Customer accounts receivable	7,367	7,956	10,823	25,886	54,950	15,717	21	-	122,720
Commission debtors	273	192	-	-	-	-	-	-	465
Other assets	24	-	-	-	-	-	-	5,994	6,018
Total assets	19,407	25,131	19,347	25,886	54,950	22,484	21	5,994	173,220
Liabilities									
Customer accounts	5,675	12,654	24,112	29,716	57,711	12,404	-	-	142,272
Other liabilities	3,141	234	169	3,333	2,945	3,130	560	-	13,512
Total capital and reserves	-	-	-	-	-	-	-	17,436	17,436
Total liabilities and equity	8,816	12,888	24,281	33,049	60,656	15,534	560	17,436	173,220
Interest rate sensitivity gap	10,591	12,243	(4,934)	(7,163)	(5,706)	6,950	(539)	(11,442)	-
Cumulative	10,591	22,834	17,900	10,737	5,031	11,981	11,442	-	-

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

31 December 2016	Sight- 1 month £000	>1month -3months £000	>3months - 6months £000	>6months - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Non-Int. Bearing £000	Total £000
Assets									
Cash & cash equivalents	6,129	-	-	-	-	-	-	-	6,129
Available for sale financial instruments	6,499	6,499	10,993	-	-	-	-	-	23,991
Customer accounts receivable	7,265	7,650	10,037	18,675	54,074	17,704	648	-	116,053
Commission debtors	139	193	-	-	-	-	-	-	332
Other assets	70	-	-	-	-	-	-	6,111	6,181
Total assets	20,102	14,342	21,030	18,675	54,074	17,704	648	6,111	152,686
Liabilities									
Customer accounts	7,437	8,235	8,028	34,988	50,931	16,333	-	-	125,952
Other liabilities	3,067	104	159	2,276	3,754	3,590	614	-	13,564
Total capital and reserves	-	-	-	-	-	-	-	13,170	13,170
Total liabilities and equity	10,504	8,339	8,187	37,264	54,685	19,923	614	13,170	152,686
Interest rate sensitivity gap	9,598	6,003	12,843	(18,589)	(611)	(2,219)	34	(7,059)	-
Cumulative	9,598	15,601	28,444	9,855	9,244	7,025	7,059	-	-

Sensitivity analysis for interest rate risk

The Bank monitors the impact of changes in interest rates on interest rate mismatch positions using a method consistent with the FSA required reporting standard. The methodology applies weightings to the net interest rate sensitivity gap in order to quantify the impact of an adverse change in interest rates of 2.0% per annum (2016: 2.0%). The following tables set out the estimated total impact of such a change based on the mismatch at the reporting date: -

31 December 2017	Sight- 1 month £000	>1month -3months £000	>3months - 6months £000	>6months - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Non-Int. Bearing £000	Total £000
Interest rate sensitivity gap	10,591	12,243	(4,934)	(7,163)	(5,706)	6,950	(539)	(11,442)	-
Weighting	0.000	0.003	0.007	0.014	0.027	0.054	0.115	0.000	-
£000	-	37	(35)	(100)	(154)	375	(62)	-	61

31 December 2016	Sight- 1 month £000	>1month -3months £000	>3months -6months £000	>6months - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Non-Int. Bearing £000	Total £000
Interest rate sensitivity gap	9,598	6,003	12,843	(18,589)	(611)	(2,219)	34	(7,059)	-
Weighting	0.000	0.003	0.007	0.014	0.027	0.054	0.115	0.000	-
£000	-	18	90	(260)	(17)	(120)	4	-	(285)

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

Regulatory capital

The Group considers capital to comprise share capital, share premium, reserves and subordinated loans. Capital is deployed by the Board to meet the commercial objectives of the Group, whilst meeting regulatory requirements in the Bank. 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 capital position in the Bank is also subject to prescribed minimum requirements by the FSA in respect of the ratio of Common Equity Tier 1, Tier 1 and Total Capital to total risk-weighted assets. The requirement applies to the Bank (a wholly owned subsidiary of the Company) as a component of the Group and has been adhered to throughout the year.

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

Financial instruments measured at fair value – fair value hierarchy

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

31 December 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment securities				
Government bonds	28,740	-	-	28,740
Equities	24	-	-	24
	28,764	-	-	28,764

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

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

Financial instruments not measured at fair value

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

31 December 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total fair values £000	Total carrying amount £000
Assets					
Cash and cash equivalents	-	9,745	-	9,745	9,745
Held to maturity financial assets	-	5,532	-	5,532	5,532
Loans and advances to customers	-	122,720	-	122,720	122,720
Commissions receivable	-	465	-	465	465
Investment in associate	-	38	-	38	38
Trade and other receivables	-	1,443	-	1,443	1,443
	-	139,943	-	139,943	139,943
Liabilities					
Customer accounts	-	142,272	-	142,272	142,272
Creditors and accrued charges	-	3,164	-	3,164	3,164
Block creditors	-	751	-	751	751
Loan notes	-	8,995	-	8,995	8,995
	-	155,182	-	155,182	155,182

31 December 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total fair values £000	Total carrying amount £000
Assets					
Cash and cash equivalents	-	6,129	-	6,129	6,129
Loans and advances to customers	-	116,053	-	116,053	116,053
Commissions receivable	-	332	-	332	332
Trade and other receivables	-	1,732	-	1,732	1,732
	-	124,246	-	124,246	124,246
Liabilities					
Customer accounts	-	125,952	-	125,952	125,952
Creditors and accrued charges	-	2,975	-	2,975	2,975
Block creditors	-	1,390	-	1,390	1,390
Loan notes	-	8,545	-	8,545	8,545
	-	138,862	-	138,862	138,862

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

5. Segmental analysis

Segmental information is presented in respect of the Group's business segments. The Directors consider that the Group currently operates in one geographic segment comprising of the Isle of Man, UK and Channel Islands. The primary format, business segments, is based on the Group's management and internal reporting structure. The Directors consider that the Group operates in five (2016: four) product orientated segments in addition to its investing activities: Asset and Personal Finance (including provision of HP contracts, finance leases, personal loans, commercial loans, block discounting, vehicle stocking plans and wholesale funding agreements); Manx Incahoot; Conister Card Services; Edgewater Associates; and Manx FX.

For the year ended 31 December 2017	Asset and Personal Finance £000	Manx Incahoot £000	Conister Card Services £000	Edgewater Associates £000	Manx FX £000	Investing Activities £000	Total £000
Net interest income	16,637	-	-	-	-	-	16,637
Operating income /(loss)	8,508	44	(104)	2,625	447	-	11,520
Profit / (loss) before tax payable	2,100	(293)	(104)	742	249	(186)	2,508
Capital expenditure	254	1	-	319	-	-	574
Total assets	168,226	307	18	2,252	181	2,236	173,220

For the year ended 31 December 2016	Asset and Personal Finance £000	Manx Incahoot £000	Conister Card Services £000	Edgewater Associates £000	Manx FX £000	Investing Activities £000	Total £000
Net interest income	16,001	-	-	-	-	-	16,001
Operating income /(loss)	7,047	81	(106)	1,465	111	1	8,599
Profit / (loss) before tax payable	1,787	(205)	(223)	371	(26)	(159)	1,545
Capital expenditure	69	52	-	970	-	-	1,091
Total assets	148,523	418	2	1,546	102	2,095	152,686

6. Interest income

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

7. Personnel expenses

	2017 £000	2016 £000
Salaries and Directors' remuneration / fees	3,914	3,248
Pension costs	247	199
National insurance and payroll taxes	432	353
Training and recruitment costs	190	135
	4,783	3,935

8. Other expenses

	2017 £000	2016 £000
Professional and legal fees	848	858
Marketing costs	211	167
IT costs	528	425
Establishment costs	376	362
Communication costs	137	61
Travel costs	149	79
Bank charges	142	136
Insurance	133	112
Irrecoverable VAT	180	238
Other costs	448	268
	3,152	2,706

9. Allowance for impairment

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

	2017 £000	2016 £000
Specific impairment allowances made	1,295	915
Reversal of allowances previously made	(776)	(475)
Total charge for specific provision for impairment	519	440

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

	2017 £000	2016 £000
Collective impairment allowances made	28	12
Release of allowances previously made	(12)	(5)
Total charge for collective allowances for impairment	16	7
Total charge for allowances for impairment	535	447

10. Profit before tax payable

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

		2017 £000	2016 £000
Interest expense payable to depositors		2,690	2,795
Interest expense payable on loan notes		495	475
Interest expense payable to block funders		71	98
Share options expense		22	46
Directors' remuneration		214	304
Directors' fees		185	195
Directors' pensions		21	30
Directors' performance related pay		36	60
Auditor's remuneration: -	as Auditor current year	90	78
	non-audit services	37	38
Pension cost defined benefit scheme		17	13
Operating lease rentals for property		220	231

11. Tax expense

	2017 £000	2016 £000
Current tax expense		
Current year	226	114
Changes to estimates for prior years	12	7
	238	121
Deferred tax expense		
Origination and reversal of temporary differences	2	24
Utilisation of previously recognised tax losses	-	78
Changes to estimates for prior years	-	21
	2	123
Total tax expense	240	244

		2017 £000		2016 £000
Reconciliation of effective tax rate				
Profit before tax on continuing operations		2,748		1,545
Tax using the Bank's domestic tax rate	10.0%	275	10.0%	155
Effect of tax rates in foreign jurisdictions	1.6%	44	1.5%	24
Non-deductible expenses	0.8%	23	1.8%	28
Tax exempt income	(2.4)%	(67)	(0.4)%	(6)
Timing differences in current year	(1.8)%	(49)	(0.6)%	(9)
Origination and reversal of temporary differences in deferred tax	0.1%	2	1.6%	24
Changes to estimates for prior years	0.4%	12	1.8%	28
Total tax expense	8.7%	240	15.8%	244

The main rate of corporation tax in the Isle of Man is 0.0% (2016: 0.0%). However the profits of the Group's Isle of Man banking activities are taxed at 10.0% (2016: 10.0%). The profits of the Group's subsidiaries that are subject to UK corporation tax are taxed at a rate of 19.0% (2016: 20.0%).

The value of tax losses carried forward reduced to nil and there is now a timing difference related to accelerated capital allowances resulting in a £42,000 liability (2016: £40,000 liability). This resulted in an expense of £2,000 (2016: £123,000) to the consolidated income statement.

12. Earnings per share

	2017	2016
Profit for the year after taxation	£2,508,000	£1,301,000
Weighted average number of ordinary shares in issue	110,880,711	102,070,252
Basic earnings per share (pence)	2.26	1.27
Diluted earnings per share (pence)	1.77	0.87
Total comprehensive income for the year	£2,445,000	£977,000
Weighted average number of ordinary shares in issue	110,880,711	102,070,252
Basic earnings per share (pence)	2.21	0.96
Diluted earnings per share (pence)	1.73	0.68

The basic earnings per share calculation is based upon the profit for the year after taxation and the weighted average of the number of shares in issue throughout the year.

12. Earnings per share (continued)

	2017	2016
Reconciliation of weighted average number of ordinary shares in issue between basic and diluted earnings per share		
As per basic earnings per share	110,880,711	102,070,252
Number of shares issued if all convertible loan notes were exchanged for equity (note 26)	41,666,667	61,500,000
Dilutive element of warrants if taken up (note 26)	-	12,733,968
Dilutive element of share options if exercised (note 28)	-	-
As per dilutive earnings per share	152,547,378	176,304,220
Reconciliation of earnings between basic and diluted earnings per share		
As per basic earnings per share – profit for the year after taxation	£2,508,000	£1,301,000
Interest expense saved if all convertible loan notes were exchanged for equity (note 26)	£196,150	£230,150
As per dilutive earnings per share	£2,704,150	£1,531,150
Reconciliation of earnings between basic and diluted earnings per share		
As per basic earnings per share – total comprehensive income	£2,445,000	£977,000
Interest expense saved if all convertible loan notes were exchanged for equity (note 26)	£196,150	£230,150
As per dilutive earnings per share	£2,641,150	£1,207,150

The diluted earnings per share calculations assume that all convertible loan notes, warrants and share options have been converted/exercised at the beginning of the year where they are dilutive.

13. Company loss

The loss on ordinary activities after taxation of the Company is £174,000 (2016: £119,000).

14. Cash and cash equivalents

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Cash at bank and in hand	9,745	6,129	200	-
	9,745	6,129	200	-

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

15. Financial assets at fair value through profit or loss

The investment represents shares in a UK quoted company, elected to be classified as a financial asset at fair value through profit or loss. The investment is stated at market value and is classified as a level 1 investment in the IFRS 13 fair value hierarchy. The cost of the shares was £471,000. The unrealised difference between cost and market value has been taken to the income statement. Dividend income of £350,000 and £24,000 of sale proceeds have been received from this investment since it was made.

16. Available for sale financial instruments

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

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

17. Held to maturity financial instruments

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

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

18. Loans and advances to customers

		2017			2016	
	Gross Amount	**Impairment Allowance**	**Carrying Value**	Gross Amount	Impairment Allowance	Carrying Value
Group	**£000**	**£000**	**£000**	£000	£000	£000
HP balances	**59,909**	**(1,252)**	**58,657**	61,952	(1,309)	60,643
Finance lease balances	**20,088**	**(1,046)**	**19,042**	14,779	(673)	14,106
Unsecured personal loans	**10,521**	**(211)**	**10,310**	6,638	(162)	6,476
Vehicle stocking plans	**1,613**	**-**	**1,613**	1,366	-	1,366
Wholesale funding arrangements	**5,830**	**-**	**5,830**	-	-	-
Block discounting	**13,523**	**-**	**13,523**	13,213	-	13,213
Secured commercial loans	**659**	**(4)**	**655**	2,257	(12)	2,245
Secured personal loans	**13,090**	**-**	**13,090**	18,004	-	18,004
	125,233	**(2,513)**	**122,720**	118,209	(2,156)	116,053

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

Specific allowance for impairment	**2017 £000**	2016 £000
Balance at 1 January	**2,099**	2,011
Specific allowance for impairment made	**1,295**	915
Release of allowances previously made	**(776)**	(475)
Write-offs	**(178)**	(352)
Balance at 31 December	**2,440**	2,099

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

Advances on preferential terms are available to all Directors, management and staff. As at 31 December 2017 £347,328 (2016: £306,895) had been lent on this basis. In the Group's ordinary course of business, advances may be made to Shareholders but all such advances are made on normal commercial terms.

18. Loans and advances to customers (continued)

As detailed below, at the end of the current financial year three loan exposures (2016: three), all in connection with block discounting lending, exceeded 10.0% of the capital base of the Bank: -

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

HP and finance lease receivables

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

	2017 £000	2016 £000
Less than one year	36,227	35,537
Between one and five years	60,576	60,542
Gross investment in HP and finance lease receivables	96,803	96,079

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

	2017 £000	2016 £000
Less than one year	29,317	26,562
Between one and five years	50,680	50,169
Net investment in HP and finance lease receivables	79,997	76,731

19. Property, plant and equipment

Group	Leasehold Improvements £000	IT Equipment £000	Furniture & Equipment £000	Motor Vehicles £000	Total £000
Cost					
As at 1 January 2017	417	1,555	629	57	2,658
Reclassification[1]	-	(1,330)	-	-	(1,330)
Additions	26	69	17	10	122
Disposals	-	-	-	(57)	(57)
As at 31 December 2017	443	294	646	10	1,393
Accumulated depreciation					
As at 1 January 2017	129	1,189	588	33	1,939
Reclassification[1]	-	(1,093)	-	-	(1,093)
Charge for year	60	56	11	7	134
Disposals	-	-	-	(37)	(37)
As at 31 December 2017	189	152	599	3	943
Carrying value at 31 December 2017	254	142	47	7	450
Carrying value at 31 December 2016	288	366	41	24	719

[1]During the year IT software has been reclassified from property, plant and equipment to intangible assets (see note 20) as it is being reported similarly for regulatory purposes in the Bank.

19. Property, plant and equipment (continued)

Company	Leasehold Improvements £000	IT Equipment £000	Furniture & Equipment £000	Total £000
Cost				
As at 1 January 2017	234	13	15	262
Additions	-	-	-	-
Disposals	-	-	-	-
As at 31 December 2017	234	13	15	262
Accumulated depreciation				
As at 1 January 2017	53	1	1	55
Charge for year	39	1	1	41
Disposals	-	-	-	-
As at 31 December 2017	92	2	2	96
Carrying value at 31 December 2017	142	11	13	166
Carrying value at 31 December 2016	181	12	14	207

20. Intangible assets

Group	Customer Contracts & Lists £000	Intellectual Property Rights £000	IT Software and Website Development £000	Total £000
Cost				
As at 1 January 2017	1,024	345	71	1,440
Reclassification[1]	-	-	1,330	1,330
Additions	21	43	149	213
Acquisition of MBL	239	-	-	239
Disposals	-	-	-	-
As at 31 December 2017	1,284	388	1,550	3,222
Accumulated amortisation				
As at 1 January 2017	76	48	-	124
Reclassification[1]	-	-	1,093	1,093
Charge for year / impairment (note 21)	54	114	118	286
Disposals	-	-	-	-
As at 31 December 2017	130	162	1,211	1,503
Carrying value at 31 December 2017	1,154	226	339	1,719
Carrying value at 31 December 2016	948	297	71	1,316

[1]During the year IT software has been reclassified from property, plant and equipment (see note 19) to intangible assets as it is being reported similarly for regulatory purposes in the Bank.

Acquisition of MBL

On 23 December 2016, EWA acquired the majority of the Isle of Man IFA business held by Knox Financial Services Limited ("KFSL") carrying a trading name of MBL. The initial acquisition included approximately 4,000 clients together with 6 members of staff. The basis of consideration is in part contingent, as it is determined by 4 times renewal income received in the first 12 months of ownership, reduced down by any clawbacks in the same period. The final value cannot fall below £800,000. EWA entered into a loan agreement with the Bank (see note 31 for terms) and paid the non-refundable minimum of £800,000 and a further £200,000 into an escrow account until the final valuation has been determined. When the value has been finalised, any surplus or shortfall will be settled.

20. Intangible assets (continued)
Acquisition of MBL (continued)

At acquisition, by reference to the renewal income received by KFSL in the 12 months prior to disposal, an estimate of £236,906 was assumed for income over the preceding 12 months, which would have generated a consideration sum of £947,624. Therefore, EWA accounted for this transaction by recognising an intangible asset of £947,624 and a receivable of £52,376 (see note 22) of the monies held in escrow. Subsequent to acquisition this estimate has been updated to an estimated purchase price of £989,400 as at 31 December 2017. Consequently, the receivable from escrow has reduced to £10,600. The fair value of the assets acquired is considered to be of the same amount as the sum estimated to be paid and principally relates to customer contracts.

In tandem, both parties entered into an option agreement, exercisable within three months from the transaction date, for EWA to acquire the remainder of the vendor's IFA business which included approximately 150 clients. This option was exercised on 18 January 2017. The price of the acquisition is calculated by four times the renewal income received over the 12 month period subsequent to completion. The purchase price is estimated to be £198,300, of which £75,000 was paid on exercise of the option.

The period over which these contracts are to be amortised is estimated to be 18.75 years given the average duration of the existing EWA portfolio for renewal income.

21. Investment in Group undertakings

The Company has the following investments in subsidiaries incorporated in the Isle of Man: -

Carrying value of investments	Nature of Business	31 December 2017 % Holding	Date of Incorporation	Total 2017 £000	Total 2016 £000
Conister Bank Limited	Asset and Personal Finance	100	05/12/1935	11,767	10,067
Edgewater Associates Limited	Wealth Management	100	24/12/1996	2,005	2,005
TransSend Holdings Limited	Holding Company for Prepaid Card Division	100	05/11/2007	-	-
Bradburn Limited	Holding Company	100	15/05/2009	-	-
				13,772	12,072

Amounts owed to and from Group undertakings are unsecured, interest-free and repayable on demand.

Subordinated loans

MFG has issued several subordinated loans as part of its equity funding into the Bank and EWA. Interest charged is at the discretion of the lender.

Company Creation	Maturity	Interest rate	2017 £000	2016 £000
Conister Bank Limited				
11 February 2014	11 February 2024	7.0%	500	500
27 May 2014	27 May 2024	7.0%	500	500
9 July 2014	9 July 2024	7.0%	500	500
17 September 2014	17 September 2026	7.0%	400	400
22 July 2013	22 July 2033	7.0%	1,000	1,000
25 October 2013	22 October 2033	7.0%	1,000	1,000
23 September 2016	23 September 2036	7.0%	1,100	1,100
14 June 2017	14 June 2037	7.0%	450	-
Edgewater Associates Limited				
14 May 2012	14 May 2017	7.0%	-	128
28 February 2013	28 February 2018	7.0%	50	50
21 February 2017	21 February 2027	7.0%	150	-
14 May 2017	14 May 2027	7.0%	128	-
			5,778	5,178

21. Investment in Group undertakings (continued)

Goodwill

	Group 2017 £000	Group 2016 £000
Edgewater Associates Limited ("EWA")	**1,849**	1,849
ECF Asset Finance PLC ("ECF")	**454**	454
Three Spires Insurance Services Limited ("Three Spires")	**41**	41
	2,344	2,344

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 EWA is based on the forecasted 3 year cash flow projections, extrapolated to 10 years using a 2.0% annual increment, and then discounted using a 12.0% discount factor. The sensitivity of the analysis was tested using additional discount factors of 15.0% and 20.0% on stable profit levels.

The estimated recoverable amount in relation to the goodwill generated on the purchase of ECF is based on forecasted 3 year sales interest income calculated at 5.0% margin, extrapolated to 10 years using a 2.0% annual increment, and then discounted using a 12.0% discount factor. The sensitivity of the analysis was tested using additional discount factors of 15.0% and 20.0% on varying sales volumes.

There has been no change in the detailed method of measurement for EWA and ECF when compared to 2016. The goodwill generated on the purchase of Three Spires has been reviewed at the current year end and is considered adequate given its income streams referred to EWA. On the basis of the above reviews no impairment to goodwill has been made in the current year.

Acquisition of subsidiary

In December 2015, Bradburn Limited acquired 49.9% of the remaining shares of Manx Financial Limited ("MFL") that it did not already hold, for £500,000. At that point MFL became a subsidiary of the Group.

Investment in associate

On 13 December 2017, 40.0% of the share capital of The Business Lending Exchange Limited ("BLX") was acquired for nil consideration. As at the date of acquisition the net assets of BLX were £94,000. The Group's resulting share of net assets is equal to £38,000 at that date.

Acquisition of Incahoot Limited

On 6 March 2015, the business of Incahoot Limited was acquired by Manx Incahoot Limited, a subsidiary of the Group.

In exchange for the net assets acquired, Manx Incahoot Limited paid £101,000 in cash and pledged a further 10.0% share of future revenue streams on pipeline listed at the time of acquisition generated within 2 years of purchase, up to a cap of £100,000. No revenue was generated from this pipeline in the 2 year period.

On 9 December 2016, a valuation was conducted by an independent firm of professional advisers on the intellectual property rights acquired for the purpose of including within these financial statements. The independent firm addressed the three levels of the IFRS fair value hierarchy and concluded that level 3 was most appropriate as the intellectual property rights acquired had no active markets (Level 1), or comparable assets against which to index prices (Level 2). Therefore, the report valued the intellectual property rights acquired based on internally generated data (Level 3) being: costs incurred to date and cash flow projections. The report averaged two valuation approaches, the replacement cost approach and the income approach using a discount factor of 42.5%, to arrive at a final valuation of £262,474. This created an impairment of £48,026. On 2 February 2018, the valuation was again updated which lead to a reduced valuation of £154,427. This created an additional impairment of £108,047.

21. Investment in Group undertakings (continued)
Acquisition of Incahoot Limited (continued)

There were no adverse trends arising from comparable market disposals of domain names to warrant any impairment to this intangible.

The Directors believe that the assets acquired will have an enduring benefit to the company and therefore have adopted an indefinite life as the appropriate basis for determining its useful life for amortisation purposes.

22. Trade and other receivables

	Group		Company	
	2017 £000	2016 £000	2017 £000	2016 £000
Prepayments and other debtors	562	874	22	29
VAT recoverable	817	752	-	-
Depositors Compensation Scheme Receivable	54	54	-	-
Monies held in escrow from MBL acquisition (see note 20)	10	52	-	-
	1,443	1,732	22	29

Included in trade and other receivables is an amount of £817,000 (2016: £752,000) relating to a reclaim of VAT. The Bank, as the Group VAT registered entity, has for some time considered the VAT recovery rate being obtained by the business was neither fair nor reasonable, specifically regarding the attribution of part of the residual input tax relating to the HP business not being considered as a taxable supply. Queries have been raised with the Isle of Man Government Customs & Excise Division ("C&E"), and several reviews of the mechanics of the recovery process were undertaken by the Company's professional advisors.

The decision of the First-Tier Tax Tribunal released 18 August 2011 in respect of Volkswagen Financial Services (UK) Limited ("VWFS") v HM Revenue & Customs (TC01401) ("VWFS Decision") added significant weight to the case put by the Bank and a request for a revised Partial Exemption Special Method was submitted in December 2011. The proposal put forward by the Bank was that the revised method would allocate 50.0% of costs in respect of HP transactions to a taxable supply and 50.0% to an exempt supply. In addition, a Voluntary Disclosure was made as a retrospective claim for input VAT under-claimed in the last 4 years. A secondary claim was also made to cover periods Q4 2012 to Q1 2016 for the value of £230,000 and an amount of £130,000 has been accrued to cover periods Q2 2016 to Q4 2017.

In November 2012, it was announced that the HMRC Upper Tribunal had overturned the First-Tier Tribunal in relation to the VWFS Decision. VWFS has subsequently been given leave to appeal and this was scheduled to be heard in October 2013. However, this was delayed and the case was heard by the Court of Appeal on 17 April 2015 who overturned the Upper Tribunal's decision ruling in favour of VWFS. HMRC have appealed this decision to the Supreme Court, which has referred the issue to the European Court of Justice.

The Bank's total exposure in relation to this matter is £930,000, comprising the debtor balance referred to above plus an additional £113,000 VAT reclaimed under the partial Exemption Special Method, in the period from Q4 2011 to Q3 2012 (from Q4 2012 the Bank reverted back to the previous method). On the basis of the discussions and correspondence which have taken place between the Bank and C&E, in addition to the VWFS case, the Directors are confident that the VAT claim referred to above will be secured.

23. Customer accounts

	2017 £000	2016 £000
Retail customers: term deposits	137,399	124,398
Corporate customers: term deposits	4,873	1,554
	142,272	125,952

24. Creditors and accrued charges

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Commission creditors	2,042	2,504	-	-
Other creditors and accruals	774	363	139	82
Taxation creditors	348	108	-	-
	3,164	2,975	139	82

25. Block creditors

	2017 £000	2016 £000
Drawdown 2 – repayable 25/07/2018, interest payable at 5.8%, secured on assets of MFL	95	248
Drawdown 3 – repayable 08/03/2019, interest payable at 6.5%, secured on assets of MFL	656	1,142
	751	1,390

26. Loan notes

	Notes	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Related parties					
J Mellon	JM	1,750	1,750	1,750	1,750
Burnbrae Limited	BL	1,200	1,200	1,200	1,200
Southern Rock Insurance Company Limited	SR	460	460	460	460
Life Science Developments Limited	LS	250	350	250	350
		3,660	3,760	3,660	3,760
Unrelated parties	UP	5,335	4,785	5,335	4,785
		8,995	8,545	8,995	8,545

JM – Two loans, one of £500,000 maturing on 31 July 2022 with interest payable of 5.0% per annum, and one of £1,250,000 maturing on 26 February 2020, paying interest of 6.5% per annum. Both loans are convertible at the rate of 7.5 pence and 9 pence respectively.

BL – One loan consisting of £1,200,000 maturing on 31 July 2022 with interest payable of 5.0% per annum. Jim Mellon is the beneficial owner of BL and Denham Eke is also a director. The loan is convertible at a rate of 7.5 pence.

SR – One loan consisting of £460,000 maturing on 26 February 2020 with interest payable of 6.5% per annum. The loan is convertible at a rate of 9 pence. John Banks, a Non-executive Director, is also a director of SR and Arron Banks is a major shareholder of SR.

LS – One loan of £250,000 maturing on 3 January 2018 with interest payable of 5.0% per annum. Denham Eke is a director of LS. The loan was repaid after maturing.

UP – Twenty four loans consisting of an average £222,292 with an average interest payable of 5.4% per annum. The earliest maturity date is 16 May 2018 and the latest maturity is 16 November 2022.

With respect to the convertible loans, the interest rate applied was deemed by the Directors to be equivalent to the market rate at the time with no conversion option.

27. Pension liability

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

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

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

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

Exposure to risk

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

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

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

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

Restriction of assets

No adjustments have been made to the statement of financial position 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 2017 (2016: none).

Funding policy

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

The most recent full actuarial valuation was carried out at 1 April 2016, which showed that the market value of the Scheme's assets was £1,379,000 representing 80.7% of the benefits that had accrued to members, after allowing for expected future increases in earnings. As required by IAS 19 this valuation has been updated by the actuary as at 31 December 2017.

27. Pension liability (continued)

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

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

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

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

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

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

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

27. Pension liability (continued)

The actuarial assumptions used to calculate Scheme liabilities under IAS19 are as follows: -	2017 %	2016 %	2015 %
Rate of increase in pension in payment: -			
Service up to 5 April 1997	**-**	-	-
Service from 6 April 1997 to 13 September 2005	**3.0**	3.1	2.7
Service from 14 September 2005	**2.1**	2.1	2.0
Rate of increase in deferred pensions	**5.0**	5.0	5.0
Discount rate applied to scheme liabilities	**2.6**	2.7	3.9
Inflation	**3.1**	3.2	2.8

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

28. Called up share capital

Ordinary shares of no par value available for issue	Number
At 31 December 2017	**200,200,000**
At 31 December 2016	150,000,000

Issued and fully paid: - Ordinary shares of no par value	Number	£000
At 31 December 2017	**131,096,235**	**20,732**
At 31 December 2016	102,070,252	18,933

There are a number of convertible loans at 31 December 2017 of £3,410,000 (2016: £3,410,000). All attached warrants were exercised during the year (31 December 2016: 28,333,333 warrants outstanding) (see note 26 for further details). The total number of warrants in issue at 31 December 2017 is nil (2016: 36,666,666), 29,025,983 were exercised during the year, and the remainder lapsed.

On 23 June 2014, 1,750,000 share options were issued to Executive Directors and senior management within the Group at an exercise price of 14 pence. The options vest over three years with a charge based on the fair value of 8 pence per option at the date of grant. The period of grant is for 10 years less 1 day ending 22 June 2024. Of the 1,750,000 share options issued, 1,050,000 (2016:1,750,000) remain outstanding; the balance lapsed during the year.

Performance and service conditions attached to share options that have not fully vested are as follows: -

(a) The options granted on 25 June 2010 (1,056,000 options) will vest if the mid-market share price of £0.30 is achieved during the period of grant (10 years ending 25 June 2020); and
(b) The options granted on 25 June 2010 and 23 June 2014 require a minimum of three years' continuous employment service in order to exercise upon the vesting date.

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a binomial probability model with the following inputs for each award: -

	23 June 2014	25 June 2010
Fair value at date of grant	£0.08	£0.03
Share price	£0.14	£0.11
Exercise price	£0.14	£0.11
Expected volatility	55.0%	47.0%
Option life	3	3
Risk-free interest rate (based on government bonds)	0.5%	2.2%
Forfeiture rate	33.3%	0.0%

The charge for the year for share options granted was £22,000 (2016: £46,000).

29. Analysis of changes in financing during the year

Analysis of changes in financing during the year	2017 £000	2016 £000
Balance at 1 January	**27,478**	26,198
Issue of loan notes	**450**	1,280
Issue of shares	**1,799**	-
	29,727	27,478

The 2017 closing balance is represented by £20,732,000 share capital (2016: £18,933,000) and £8,995,000 of loan notes (2016: £8,545,000).

30. Regulator

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

31. Related party transactions

Cash deposits
During the year, the Bank held cash on deposit on behalf of Jim Mellon (Executive Chairman of MFG) and companies related to Jim Mellon and Denham Eke (Chief Executive Officer of MFG). Total deposits amounted to £40,000 (2016: £76,000), at normal commercial interest rates in accordance with the standard rates offered by the Bank.

Funds held in a fiduciary capacity

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

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

Staff and commercial loans
Details of staff loans are given in note 18.

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

Intercompany recharges
Various intercompany recharges are made during the course of the year as a result of the Bank settling debts in other Group companies. EWA provides services to the Group in arranging its insurance and defined contribution pension arrangements.

Loan advance to EWA
On 14 December 2016, a loan advance was made to EWA by the Bank in order to provide the finance required to acquire MBL (see note 20). The advance was for £700,000 at an interest rate of 8% repayable over 6 years. A negative pledge was given by EWA to not encumber any property or assets or enter into an arrangement to borrow any further monies. The balance as at 31 December 2017 was £604,000 (2016: £700,000).

Loan advance to BLX
On 11 October 2017, a £4,000,000 loan facility was made available to BLX by the Bank in order to provide the finance required to expand its operations. The facility is for 12 months, followed by a 3 year amortisation period. Interest is charged at commercial rates. At 31 December 2017, £550,000 had been advanced to BLX.

Investments
The Bank holds less than 1% equity in the share capital of an investment of which Jim Mellon is a shareholder (note 15). Denham Eke acts as co-chairman.

31. Related party transactions (continued)

Subordinated loans
The Company has advanced £450,000 of subordinated loans in 2017 to the Bank (2016: £1,100,000) and £278,000 to EWA (2016 £nil) (see note 21).

Loan notes
See note 26 for a list of related party loan notes as at 31 December 2017 and 2016.

Key management personnel's remuneration including Executive Directors

	2017 £000	2016 £000
Short-term employee benefits	300	414

32. Operating leases

Non-cancellable lease rentals are payable in respect of property and motor vehicles as follows: -

	2017		2016	
	Leasehold Property £000	Other £000	Leasehold Property £000	Other £000
Less than one year	178	-	187	-
Between one and five years	738	-	801	-
Over five years	276	-	390	-
	1,192	-	1,378	-

33. Subsequent events

A loan note for £250,000 from Life Science Developments Limited matured on 3 January 2018 and was repaid (note 26).

The remaining fiduciary deposits held were closed out during January 2018 and the Bank no longer has any customers utilising this product offering (note 31).

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