Company Registered Number: 000001C

ISLE OF MAN BANK LIMITED

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS

31 December 2018

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	Stephen John Camm (Chairman) Lynn Ann Cleary Christopher Byron Corkill Paul David Morris Paul Thomas Smith
SECRETARY:	Kenneth Ian Maddrell
REGISTERED OFFICE:	2 Athol Street Douglas Isle of Man IM99 1AN
AUDITOR:	Ernst & Young LLC Rose House 51 – 59 Circular Road Douglas Isle of Man IM1 1AZ

REPORT OF THE DIRECTORS

The directors of Isle of Man Bank Limited ("the Company") present their annual report, together with the audited financial statements of the Company for the year ended 31 December 2018. The financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

ACTIVITIES AND BUSINESS REVIEW

Principal activities

The main activity of the Company is to provide a wide range of banking and other financial services, including taking of deposits, lending and depository services.

Business review

The Company's financial performance is presented in the Income Statement on page 7.

The operating profit before tax for the year was £10,915 thousand (2017: £9,368 thousand).

Other matters

The Company's principal business activities are banking services including taking of deposits and lending in the Isle of Man. Deposits not used to provide third party lending are placed with fellow subsidiaries of The Royal Bank of Scotland Group plc ("RBS"). The financial position of these, and hence ultimate recoverability of these placements, is a key exposure of the Company.

Accounting policies

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Details of the Company's accounting policies and key sources of estimation uncertainty are included within the Accounting policies on pages 12 to 17.

Risk management

The prevailing market and economic conditions pose risks for the Company. These include the level of defaults from customers on outstanding advances as well as the degree of uncertainty in the valuation of other financial assets and liabilities. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements.

In addition notes 7 and 15 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Board

The Board has delegated its authority for day to day risk management to the executive management sitting on committees as detailed in note 15. The Board approves any changes in inter-bank lending lines and in limits governing currency and interest rate exposures. The Board policy is not to enter into derivative transactions for trading purposes, but to undertake such contracts to hedge or reduce the volatility in interest income and foreign exchange. The Company's actual derivative transactions are outlined in note 6 to these financial statements. Further details of the Company's risk management policies are highlighted in note 15 to the financial statements.

GOING CONCERN

The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 7 and 15 to the financial statements include the Bank's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The management of the Company announced its intention to transfer the assets and the liabilities of the Company to RBSI Ltd in May 2019 as part of a wider business strategy of simplification. As a result of this the Company will surrender it's banking license and cease trading as a bank. The business will continue to operate under the current Isle of Man Bank branding. Accordingly, the financial statements have been prepared on a basis other than going concern basis. This has not resulted in any adjustments to the assets and liabilities of the Company.

DIVIDENDS

The directors do not recommend the payment of a dividend (2017: £3,000 thousand).

DIRECTORS AND SECRETARY

The present directors and secretary, who served at any time during the financial year and up to the date of signing, are listed on page 1. From 1 January 2018 to the following changes have taken place.

Directors	Appointed	Resigned
Kirsten Land	-	19 January 2018
Christopher Byron Corkill	8 February 2018	-

COLLEAGUES

The Company values the input of its employees and actively seeks opportunities to engage with all staff and invites them to contribute to on-going dialogue and activities to make the Company a better bank for our customers and staff. The annual survey of employee opinions, known as 'Our View', provides valuable data to decision makers across the Company in support of improving employee engagement and satisfaction. We track our progress through pulse surveys during the financial year, utilising questions common across the financial services industry to compare ourselves against our peers.

In addition we run an annual 'Working Together' survey where a representative sample provides feedback on the services provided by our support functions.

Our employees across the Company continue to widely support, financially and through volunteering, many community and other worthy causes.

FUTURE DEVELOPMENTS

The management of the Company announced its intention to transfer the assets and the liabilities of the Company to RBSI Ltd in May 2019 as part of a wider business strategy of simplification. As a result of this, the Company will surrender its banking license and cease trading as a bank. The business will continue to operate under the current Isle of Man Bank branding.

Other than that there have been no significant events between the year end and the date of approval of the financial statements which would require a change or additional disclosure in the financial statements.

AUDITOR

Ernst & Young LLC has expressed its willingness to continue in office as auditor. A resolution to re-appoint Ernst & Young LLC as the Company's auditor will be proposed at the forthcoming AGM.

By order of the Board:

Director P.J. SMITH
Date: 26 APRIL 2019

Director C.B. CORKILL

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Acts 1931 to 2004. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board:

Director P.T. SMITH
Date: 26 APRIL 2019

Director C.B. CORRALL

Opinion

We have audited the financial statements of Isle of Man Bank Limited (the "Company") for the year ended 31 December 2018 which comprise Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs).

In our opinion, the financial statements:
- give a true and fair view of the Company's affairs as 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs; and
- have been prepared in accordance with the requirements of the Companies Acts 1931 - 2004.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Isle of Man, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – financial statements prepared on a basis other than going concern

We draw attention to note 1 to the financial statements which explains that the directors intend to transfer the assets and liabilities of the company in May 2019 and therefore do not consider it to be appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly the financial statements have been prepared on a basis other than going concern as described in note 1. Our opinion is not modified in this respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Acts 1931-2004 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, pursuant to Section 15 of the Companies Act 1982. 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.

Ernst & Young LLC

Ernst & Young LLC
Chartered Accountants
Isle of Man
Date: 26 April 2019

Notes:

1. The maintenance and integrity of the Isle of Man Bank Limited (the "Company") web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INCOME STATEMENT *for the year ended 31 December 2018*

Continuing operations	Note	2018 £'000	2017 £'000
Interest receivable		27,995	23,621
Interest payable		(8,823)	(7,340)
Net interest income	1	19,172	16,281
Fees and commission receivable		5,654	4,868
Fees and commission payable		(4)	(68)
Other operating income		203	758
Non-interest income	2	5,853	5,558
Total income		25,025	21,839
Operating expenses	3	(13,190)	(12,421)
Operating profit before impairment losses		11,835	9,418
Impairment losses	8	(920)	(50)
Operating profit before tax		10,915	9,368
Tax charge	5	(1,113)	(836)
Profit for the year		9,802	8,532

The accompanying accounting policies and notes form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME *for the year ended 31 December 2018*

	Note	2018 £'000	2017 £'000
Profit for the year		9,802	8,532
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit schemes	4	(2,082)	(1,720)
Deferred taxation on actuarial movements on defined benefit schemes	5	208	172
Other comprehensive losses for the year after tax		(1,874)	(1,548)
Total comprehensive income for the year		7,928	6,984

The accompanying accounting policies and notes form an integral part of these financial statements.

BALANCE SHEET *as at 31 December 2018*

	Note	2018 £'000	2017 £'000
Assets			
Cash and balances at banks	7	18,419	18,265
Derivatives	6	1,299	841
Loans to banks - amortised cost	7	2,597	1,065
Loans to customers - amortised cost	7	599,446	599,178
Amounts due from holding companies and fellow subsidiaries	7	1,055,547	993,522
Other assets	11	9,496	17,621
Total assets		1,686,804	1,630,492
Liabilities			
Customer deposits	7	1,539,486	1,498,417
Derivatives	6	12,719	14,513
Amounts due to holding companies and fellow subsidiaries	7	46,628	33,672
Other liabilities	12	3,190	7,051
Total liabilities		1,602,023	1,553,653
Equity			
Shareholder's equity:			
Called up share capital	13	7,501	7,501
Reserves		77,280	69,338
Total equity		84,781	76,839
Total liabilities and equity		1,686,804	1,630,492
Memorandum items			
Contingent liabilities and commitments	16	96,129	99,404

The accompanying accounting policies and notes form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 25 APRIL 2019 and signed on its behalf by:

Director P.T. SMITH

Director C.B. CORKILL

STATEMENT OF CHANGES IN EQUITY *for the year ended 31 December 2018*

	Note	2018 £'000	2017 £'000
Called up share capital			
At 1 January and 31 December	13	7,501	7,501
Retained earnings			
At 1 January		69,338	65,354
Implementation of IFRS 9 on 1 January 2018 (1)	21	14	-
Actuarial losses recognised in defined benefit schemes	4	(2,082)	(1,720)
Deferred taxation on actuarial movements recognised on defined benefit schemes	5	208	172
Dividends paid		-	(3,000)
Profit for the year		9,802	8,532
At 31 December		77,280	69,338
Shareholder's equity at 31 December		84,781	76,839

Note:
(1) Refer to Note 21 for further information on the impact of IFRS 9 on classification and basis of preparation, year ended 31 December 2018 prepared under IFRS 9 and prior years under IAS 39.

The accompanying accounting policies and notes form an integral part of these financial statements.

CASH FLOW STATEMENT *for the year ended 31 December 2018*

	Note	2018 £'000	2017 £'000
Operating activities			
Operating profit for the year before tax		10,915	9,368
Adjustments for:			
Pension charge for defined benefit schemes	4	1,010	538
Cash contribution to defined benefit pension schemes	4	(985)	(639)
Gain on sale of assets	2	-	(50)
Depreciation of property, plant and equipment	10	264	296
Amortisation of deferred fees	1	180	-
Loan impairment provisions net of recoveries		920	(35)
Other non-cash items		(3,227)	3,000
Net cash inflows from trading activities	17	9,077	12,478
Changes in operating assets and liabilities	17	76,013	144,327
Net cash flows from operating activities before tax		85,090	156,805
Tax paid	17	(903)	(482)
Net cash flows from operating activities		84,187	156,323
Investing activities			
Purchase of property, plant & equipment	10	(296)	-
Sale of property, plant & equipment		-	211
Net cash flows from investing activities		(296)	211
Financing activities			
Dividends paid		-	(3,000)
Net cash flows used in financing activities		-	(3,000)
Effect of exchange rate changes on cash and cash equivalents		3,206	(2,995)
Net increase in cash and cash equivalents		87,097	150,539
Cash and cash equivalents 1 January		989,182	838,643
Cash and cash equivalents 31 December	18	1,076,279	989,182

The accompanying accounting policies and notes form an integral part of these financial statements.

ACCOUNTING POLICIES

1. Presentation of financial statements

The management of the Company announced its intention to transfer the assets and the liabilities of the Company to RBSI Ltd in May 2019 as part of a wider business strategy of simplification. As a result of this, the Company will surrender its banking license and cease trading as a bank. The business will continue to operate under the current Isle of Man Bank branding. Accordingly, the financial statements have been prepared on a basis other than going concern basis. As assets and liabilities will be transferred at their book value, no adjustments are required to the value of the assets and liabilities as at year end. Furthermore, no contractual commitments will become onerous as a consequence of the decision to cease trading.

The Company is incorporated and registered in the Isle of Man.

With the exception of certain financial instruments as described in accounting policy 11 and 15, the accounts are presented on a historical cost basis.

Adoption of IFRS 9

Refer to Note 21 for details of the adoption of IFRS 9.

Other amendments to IFRS

IFRS 15 'Revenue from Contracts with Customers' has been adopted with effect from 1 January 2018 and replaces IAS 18 "Revenue". The Accounting policy is updated to reflect the terminology in the new standard but it has had no effect on financial information reported in the current or comparative periods.

Interest revenue calculated using the effective interest method was previously in scope of IAS 39 'Financial instruments'. As such, the accounting policy for revenue recognition has been revised prospectively due to the adoption of IFRS 9 'Financial Instruments'. Interest income and expense continues to be recognised using the effective interest rate method for financial instruments measured at historical cost however, a credit adjusted effective interest rate is now applied to purchased or originated credit-impaired financial assets from initial recognition. There has been no restatement of profit or loss for comparative periods.

Other amendments to IFRS effective for 2018, including IFRS 2 'Share-based payments' and IAS 40 'Investment Property' have not had a material effect on the Company's financial statement.

2. Consolidated financial statements

The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as the parent of a group. Under the provisions of section 4 of the Companies Act 1982 the Company has not prepared consolidated financial statements as in the directors' opinion it would be of no real value to the members of the Company due to the insignificant amounts involved.

Furthermore the Company is exempt under IFRS 10 'Consolidated Financial Statements' from the requirement to prepare consolidated financial statements as the Company and its subsidiaries are included by full consolidation in the IFRS consolidated financial statements of its ultimate holding company, The Royal Bank of Scotland Group plc, a company registered in Scotland.

3. Revenue recognition

Interest income or expense on financial instruments that are measured at amortised cost is determined using the effective interest rate method. The effective interest rate allocates the interest income or interest expense over the expected life of the asset or liability at the rate that exactly discounts all estimated future cash flows to equal the instrument's initial carrying amount. Credit losses or reversals of credits losses do not change the carrying amount of a financial asset until impairment or reversal of an impairment is recognised at which point the effective interest rate is recalculated. Reversals cannot exceed the impairment originally charged.

Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

Net interest income in the income statement only relates to financial instruments measured at amortised cost; the interest on debt instruments classified as fair value through OCI; and the effective part of any related accounting hedging instruments. Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value.

Fees in respect of services are recognised as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

4. Employee benefits

Short-term employee benefits, such as salaries, paid absences, and other benefits are accounted for on an accruals basis over the period in which the employees provide the related services. Employees may receive variable compensation satisfied by cash, by debt instruments issued by the Company or by RBS Group shares. Variable compensation that is settled in cash or debt instruments is charged to profit or loss over the period from the start of the year to which the variable compensation relates to the expected vesting date taking account of forfeiture and clawback criteria. Contributions to defined contribution pension schemes are recognised in profit or loss when payable.

The Company provides post-retirement benefits in the form of pensions to eligible employees. Contributions to defined contribution pension schemes are recognised in the income statement when payable.

For defined benefit schemes, the defined benefit obligation is measured on an actuarial basis using the projected unit credit method and discounted at a rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds of equivalent term and currency to the scheme liabilities.

4. Employee benefits (continued)

Scheme assets are measured at their fair value. The difference between scheme assets and scheme liabilities – the net defined benefit asset or liability – is recognised in the balance sheet with a charge to the statement of other comprehensive income. A defined benefit asset is limited to the present value of any economic benefits available to the Company in the form of refunds from the plan or reduced contributions to it.

The charge to profit or loss for pension costs (recorded in operating expenses) comprises:

- the current service cost
- interest, computed at the rate used to discount scheme liabilities, on the net defined benefit liability or asset
- past service cost resulting from a scheme amendment or curtailment
- gains or losses on settlement

A curtailment occurs when the Company significantly reduces the number of employees covered by a plan. A plan amendment occurs when the Company introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the net defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases). A settlement is a transaction that eliminates all further obligations for part or all of the benefits.

Actuarial gains and losses (i.e. gains or losses on re-measuring of the net defined benefit asset or liability) are recognised in other comprehensive income in full in the period in which they arise.

5. Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

Depreciation is charged to the income statement on a straight-line basis so as to write off the depreciable amount of property, plant and equipment (including assets owned and let on operating leases) over their estimated useful lives.

The depreciable amount is the cost of an asset less its residual value. Freehold land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	50 years
Property adaptation costs	10 years
Computer equipment	up to 5 years
Other equipment	5 to 15 years

The residual value and useful life of property, plant and equipment are reviewed at each balance sheet date and updated for any changes to previous estimates.

6. Impairment of property, plant and equipment

At each reporting date, the Company assesses whether there is any indication that its property, plant and equipment is impaired. If any such indication exists, the Company estimates the recoverable amount of the asset and the impairment loss if any.

If the recoverable amount of a tangible asset is less than its carrying value, an impairment loss is recognised immediately in profit or loss and the carrying value of the asset reduced by the amount of the loss. A reversal of an impairment loss on property, plant and equipment is recognised as it arises provided the increased carrying value is not greater than it would have been had no impairment loss been recognised.

7. Foreign currencies

The Company's financial statements are presented in Sterling, which is the functional currency of the Company.

Transactions in foreign currencies are translated into Sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on financial liabilities hedging net investments in foreign operations.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Sterling at foreign exchange rates ruling at the balance sheet date. Income and expenses of foreign operations are translated into Sterling at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions.

8. Leases

As lessor

Contracts with customers to lease assets are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer; all other contracts with customers to lease assets are classified as operating leases.

8. Leases (continued)

As lessor (continued)
Finance lease receivables are included in the balance sheet, within Loans and advances to customers, at the amount of the net investment in the lease being the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease. Finance lease income is allocated to accounting periods so as to give a constant periodic rate of return before tax on the net investment and included in Interest receivable. Unguaranteed residual values are subject to regular review; if there is a reduction in their value, income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

Rental income from operating leases is recognised in income on a receivable basis over the term of the lease. Operating lease assets are included within property, plant and equipment and depreciated over their useful lives. (see accounting policy 5).

As lessee
Lease expense is recognised as an expense on a straight-line basis over the term of the relevant lease.

9. Provisions and contingent liabilities

The Company recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

Provision is made for restructuring costs, including the costs of redundancy, when the Company has a constructive obligation to restructure. An obligation exists when the Company has a detailed formal plan for the restructuring and has raised a valid expectation in those affected by starting to implement the plan or by announcing its main features.

If the Company has a contract that is onerous, it recognises the present obligation under the contract as a provision. An onerous contract is one where the unavoidable costs of meeting the Company's contractual obligations exceed the expected economic benefits. When the Company vacates a leasehold property, a provision is recognised for the costs under the lease less any expected economic benefits (such as rental income).

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised if not probable but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

10. Tax

Income tax expense or income, comprising current tax and deferred tax, is recorded in the income statement except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income or to equity as appropriate.

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in profit or loss, other comprehensive income or equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date, taking into account relief for overseas tax where appropriate.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

11. Financial instruments

After 1 January 2018, on initial recognition, financial instruments are measured at fair value. Subsequently they are measured as follows: i) designated at fair value through profit or loss; ii) amortised cost, iii) fair value through profit or loss, or iv) financial assets may be designated as at fair value through other comprehensive income. Regular way purchases of financial assets classified as amortised cost are recognised on the settlement date; all other regular way transactions in financial assets are recognised on the trade date.

i) Designated as at fair value through profit or loss – Equity instruments and derivatives are normally measured at FVPL. A financial asset may be designated as at fair value through profit or loss only if such designation eliminates or significantly reduces a measurement or recognition inconsistency.

A financial liability may be designated as at fair value through profit or loss only if such designation (a) eliminated or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial liabilities that the Company manages and evaluates on a fair value basis; or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract. Financial instruments that the Company designates on initial recognition as being at fair value through profit or loss are recognised at fair value, with transaction costs being recognised in profit or loss, and are subsequently measured at fair value. Gains and losses are recognised in profit or loss as they arise.

ii) Amortised cost assets –
A debt instrument is normally measured at amortised cost if both of the following conditions are met:
(a) the asset is held within a business model whose objective is solely to hold assets to collect contractual cash flows; and
(b) the contractual terms of the financial asset are solely payments of principal and interest (SPPI) on the outstanding balance.

Amortised cost liabilities – all liabilities that are not subsequently measured at fair value are measured at amortised cost.

11. Financial instruments (continued)

iii) Fair value through profit or loss - a financial liability is measured at fair value if it arises from: a financial guarantee contract; a commitment to lend at below market rates; an obligation arising from the failed sale of an asset; or a contingent consideration for a business acquisition. Fair value through profit or loss is the default classification for a financial asset.

iv) Designated at fair value through other comprehensive income – a debt instrument is normally measured at FVOCI may also be designated irrevocably at FVOCI, if both of the following conditions are met:
(a) the instrument is held within a business model whose objective is both to hold assets to collect contractual cash flows and selling financial assets; and
(b) the contractual terms of the financial instrument give rise to cash flows that are solely payments of principal and interest on the outstanding balance.

A debt instrument or equity instrument that is not measured at amortised cost or at FVOCI must be measured at FVPL.

Reclassifications – financial liabilities cannot be reclassified. Financial assets are only reclassified where there has been a change in the business model.

Fair value - the Company's approach to determining the fair value of financial instruments measured at fair value is set out in note 7 on the accounts.

Business model assessment - business models are assessed at portfolio level, being the level at which they are managed. This is expected to result in the most consistent classification of assets because it aligns with the stated objectives of the portfolio, its risk management and the ability to monitor sales of assets from a portfolio.

The SPPI test
As a second step of its classification process the Company assesses the contractual terms of financial asset to identify whether it meets the SPPI test. The criteria for classifying cash flows as solely principal and interest are assessed against the contractual terms of an instrument, with attention to leverage features; prepayment and extension terms; and triggers that might reset the effective rate of interest.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Before 1 January 2018, the Company classified its financial instruments as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost).

Under IAS 39, the Company recognised and measured financial instruments as follows:

Loans and receivables: Loans and receivables were initially recognised at fair value plus directly related transaction costs. They were subsequently measured at amortised cost using the effective interest method less any impairment losses.

Available-for-sale - Financial assets that were not classified as loans and receivables or designated at fair value through profit or loss were classified as available-for-sale. Available-for-sale assets were initially recognised at fair value plus directly related transaction costs and were subsequently measured at fair value. Impairment losses and exchange differences were recognised in the income statement whereas all other changes in fair value and any related tax was reported in other comprehensive income until disposal.

12. Impairments of financial assets

At each balance sheet date each financial asset or portfolio of loans measured at amortised cost or at fair value through other comprehensive income, issued financial guarantees and loan commitments are assessed for impairment. Loss allowances are forward looking, based on 12 month expected credit losses where there has not been a significant increase in credit risk (SICR) rating (refer Note 15 for details), otherwise allowances are based on lifetime expected losses. Loss allowances for lease receivables are always made on a lifetime basis.

Expected credit losses (ECL) are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. In the absence of a change in credit rating, allowances are recognised when there is reduction in the net present value of expected cash flows. On a significant increase in credit risk, allowances are recognised without a change in the expected cash flows, although typically expected cash flows do also change; and expected credit losses are rebased from 12 month to lifetime expectations.
On restructuring a financial asset without causing derecognition of the original asset the revised cash flows are used in re-estimating the credit loss. Where restructuring causes derecognition of the original financial asset, the fair value of the replacement asset is used as the closing cash flow of the original asset.

Where, in the course of the orderly realisation of a loan, it is exchanged for equity shares or property, the exchange is accounted for as the sale of the loan and the acquisition of equity securities or investment property. Where the Company's interest in equity shares following the exchange is such that the Company controls an entity, that entity is consolidated.

The costs of loss allowances on assets held at amortised cost are presented as impairments in the income statement. Allowances in respect financial guarantees and loan commitments are presented in administrative expenses. Financial assets are presented gross of allowances except where the asset has been wholly or partially written off.

12. Impairments of financial assets (continued)

Before 1 January 2018, the Company recognised impairment losses on loans and receivables or available-for-sale assets when there was objective evidence that an event since initial recognition of the asset had adversely affected the amount or timing or future cash flows from the asset. The Company measured the amount of the loss as the difference between the carrying amount of the asset and the present value of estimated future cash flows from the asset discounted at the effective interest rate at initial recognition.

13. Derecognition

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Company either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Company assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. The asset remains on the balance sheet if substantially all the risks and rewards have been retained. It is derecognised if substantially all the risks and rewards have been transferred. If substantially all the risks and rewards have been neither retained nor transferred, the Company assesses whether or not it has retained control of the asset. If the Company has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement; if the Company has not retained control of the asset, it is derecognised.

A financial liability is removed from the balance sheet when the obligation is discharged, or cancelled, or expires.

14. Netting

Financial assets and financial liabilities are offset and the net amounts presented in the balance sheet when, and only when, the Company has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Company is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented gross.

15. Derivatives and hedging

Derivative financial instruments are initially recognised, and subsequently measured, at fair value through profit or loss. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge are recognised as they arise in the income statement.

The Company enters into two types of hedge relationship: hedges of changes in the fair value of a recognised asset or liability or firm commitment (fair value hedges); and hedges of the net investment in a foreign operation.

The Company also enters into fair value hedges in order to hedge fixed interest rate loans with floating rate Interest Rate Swaps ("IRS").

Hedge relationships are formally documented at inception. The documentation includes identification of the hedged item and the hedging instrument, details the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in fair values attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued. Hedge accounting is also discontinued if the Company revokes the designation of a hedge relationship.

Fair value hedge – in a fair value hedge, the gain or loss on the hedging instrument is recognised in the income statement. The gain or loss on the hedged item attributable to the hedged risk is recognised in the income statement and, where the hedged item is measured at amortised cost, adjusts the carrying amount of the hedged item. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; or if the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked. If the hedged item is one for which the effective interest rate method is used, any cumulative adjustment is amortised to the income statement over the life of the hedged item using a recalculated effective interest rate.

The Company has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

16. Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

Critical accounting policies and key sources of estimation uncertainty

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's 'Conceptual Framework for Financial Reporting'. The judgements and assumptions involved in the Company's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Company would affect its reported results.

Critical accounting policy	Note
Amortisation of fees	1
Pension	4
Loan impairment provisions	8
Provision for liabilities and charges	12

Accounting developments

International Financial Reporting Standards

A number of IFRSs and amendments to IFRS were in issue at 31 December 2018 that would affect the Company from 1 January 2019 or later.

On adoption, none of these standards are expected to have a material effect on the Company's results.

Effective 1 January 2019

IFRS 16 'Leases' was issued in January 2016 to replace IAS 17 'Leases'. The Company will apply the standard with effect from 1 January 2019. Lessees will capitalise operating leases through the recognition of assets representing the contractual rights of use. The present value of contractual payments will be recognised as lease liabilities.

The Company has new models and processes to implement IFRS 16. The most significant impact from initially applying IFRS 16 will be to recognise rights of use assets in respect of branches and office properties leased by the Company under contracts classified as operating leases under IAS 17. The present value of other contracts is immaterial. The Company will apply IFRS 16 on a modified retrospective basis without restating prior years and electing for the following exemptions on transition at 1 January 2019.

The Company will

- apply IFRS 16 to contracts previously identified as leases by IAS 17
- use the incremental borrowing rate as the discount rate
- not apply IFRS 16 to operating leases with a remaining lease term of less than 12 months or low value leases (non property leases)
- rely on the assessment of whether the lease contract is onerous under IAS 37 at 31 December 2018 as an alternative to performing an impairment review of the right of use assets created on 1 January 2019. Where this is the case the carrying amount of the assets will be adjusted by the onerous lease provision.
- exclude initial direct costs from the measurement of the right of use asset

The opening balance sheet of the Company at 1 January 2019 will be adjusted to create a right of use asset of approximately £6,976 thousand. A lease liability will also be recognised of £9,801 thousand. Retained earnings will decrease by £2,825 thousand after tax.

Application of IFRS 16 by the Company is not expected to have a significant impact on lessor accounting or for finance lease accounting by lessees.

1. Net interest income

	2018 £'000	2017 £'000
Interest receivable from group undertakings	7,696	4,161
Loans to customers- amortised cost	20,299	19,460
Interest receivable	27,995	23,621
Customer deposits	(3,380)	(2,067)
Interest payable to group undertakings	(5,443)	(5,273)
Interest payable	(8,823)	(7,340)
Net interest income	19,172	16,281

Critical accounting policies : Amortisation of loan arrangement fees

Where a loan arrangement fee is over £50 thousand, the contractual life of the loan is used to amortise the fees over the life of the loan. Until 31 December 2017, the Company amortised the fees below £50 thousand over a period of 72 months. This changed during 2018 and the behavioural life of each portfolio is used to amortise the fees as this is considered a more accurate measure. The average behavioural life of 33 months was used to amortise the fees below £50 thousand in 2018.

The new approach was applied to all unamortised fees since 2015. This change in accounting estimate resulted in £180 thousand additional income compared to the previous approach which has been recognised in the current financial year.

2. Non-interest income

	2018 £'000	2017 £'000
Fees and commission receivable		
- Payment Services	3,866	3,896
-Lending - (Credit Facilities)	6	2
- Trade Finance	14	16
- Investment Management	4	2
- Other services	362	725
Other commissions(1)	1,402	227
Fees and commission payable	(4)	(68)
Other operating income:		
Gain on sale of property, plant and equipment	-	50
Other non-interest income	203	708
Total non-interest income	5,853	5,558

Note:

(1) Other commissions includes dealing profits.

3. Operating expenses

	2018 £'000	2017 £'000
Wages, salaries and other staff costs	3,475	3,294
Pension costs (see note 4)		
- defined benefit schemes (see note 4)	1,010	538
- defined contributions schemes	21	25
- contributions to RBS operated pension schemes	86	149
	4,592	4,006
Depreciation on property, plant and equipment (see note 10)	264	296
Premises and equipment	1,058	68
Other administrative expenses(1)	7,276	8,051
	8,598	8,415
Total operating expenses	13,190	12,421

(1) Administrative costs include provisions for possible product redress.

Auditor's remuneration	2018 £'000	2017 £'000
Statutory audit work	70	70
Regulatory audit work	14	14
	84	84

Staff

The average number of persons employed by the Company during the year, excluding temporary staff was 111 (2017: 112).

4. Pensions

The Company made £21 thousand contribution to its own defined contribution schemes in 2018 (2017: £25 thousand).

Eligible employees of the Company can participate in membership of RBS operated pension schemes.

The Company operates two defined benefit pension scheme, The Isle of Man Bank Pension Fund ("IOMPF") and The Isle of Man Bank Widows' and Orphans' Fund ("IOMWO"), the assets of which are independent of the Company's finances.

The schemes operate under Isle of Man trust law and are managed and administered on behalf of their members in accordance with the terms of the trust deed, the scheme rules and Isle of Man legislation. There is no pension scheme funding legislation in the Isle of Man. However, statutory debt rules do apply such that a debt may be due on an employer if it becomes insolvent; the scheme winds up; or, in the case of a multi-employer scheme, stops participating in the scheme while the scheme continues.

The trustees of the schemes collectively own the scheme assets which are held separately from the assets of the Company. The Trustee body comprises three trustees nominated by the Company:- one representative of the pensioners; one representative of the recognised union in the Isle of Man and one independent trustee. The trustees are responsible for operating the schemes in line with its formal rules and pensions law. It has a duty to act in the best interests of all scheme members, including pensioners and those who are no longer employed by the Company but who still have benefits in the schemes.

Full valuations of the Company's scheme are carried out every 3 years.

Interim valuations of the Company's scheme were prepared to 31 December 2018 by independent actuaries, using the following assumptions:

Assumptions

Principal actuarial assumptions at 31 December	2018	2017
Discount rate	2.90%	2.55%
Rate of increase in salaries	1.75%	1.75%
Rate of increase in pensions in payment	1.65%	1.65%
Inflation assumption	3.15%	3.10%

Post–retirement mortality assumptions	2018	2017
Longevity at age 60 for current pensioners (years)	28.3	29.0
Males	30.8	31.0
Females		
Longevity at age 60 for future pensioners currently aged 40 (years)		
Males	29.8	31.0
Females	32.4	33.0

These post-retirement mortality assumptions are derived from standard mortality tables used by the scheme actuary to value the liabilities for the schemes.

Discount rate

The Sterling yield curve is constructed by reference to yields on 'AA' corporate bonds from which a single discount rate is derived based on a cash flow profile similar in structure and duration to the pension obligations. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The criteria include issuance size, quality of pricing and the exclusion of outliers. Judgement is also required in determining the shape of the yield curve at long durations: For the Sterling curve, a constant credit spread relative to gilts is assumed at long durations.

Investment strategy

The assets of the schemes are invested in a diversified portfolio of quoted equities, government and corporate fixed-interest and index-linked bonds. The Scheme's equity holdings are held in passive pooled funds managed by State Street. The Trustee's investment benchmark is for the majority to be invested in global developed markets, with a small proportion invested in emerging markets.

Major classes of plan assets as a percentage of total plan assets of the Main section	2018	2017
Quoted assets		
Equities	32%	33%
Index-linked bonds	6%	6%
Government fixed interest bonds	44%	43%
Corporate and other bonds	18%	18%
	100%	100%

4. Pensions (continued)

Changes in value of net pension asset	Fair value of plan assets £'000	Present value of defined benefit obligations £'000	Asset ceiling/ minimum funding £'000	Net pension asset £'000
At 1 January 2018	135,180	(110,576)	(17,083)	7,521
Income statement:				
Interest income	3,342	-	-	3,342
Interest expense	-	(2,707)	(436)	(3,143)
Current service cost	-	(771)	-	(771)
Expenses	-	(438)	-	(438)
	3,342	(3,916)	(436)	(1,010)
Statement of comprehensive income:				
Actuarial losses due to experience gains or losses	(5,654)	-	(5,266)	(10,920)
Actuarial gains due to changes in financial assumptions	-	6,872	-	6,872
Actuarial gains due to changes in demographic assumptions	-	1,966	-	1,966
	(5,654)	8,838	(5,266)	(2,082)
Contributions by employer	985	-	-	985
Benefits paid	(13,006)	13,006	-	-
At 31 December 2018	120,847	(92,648)	(22,785)	5,414

Changes in value of net pension asset	Fair value of plan assets £'000	Present value of defined benefit obligations £'000	Asset ceiling/ minimum funding £'000	Net pension asset £'000
At 1 January 2017	133,425	(112,699)	(11,586)	9,140
Income statement:				
Interest income	3,532	-	-	3,532
Interest expense	-	(2,957)	(313)	(3,270)
Current service cost	-	(800)	-	(800)
	3,532	(3,757)	(313)	(538)
Statement of comprehensive income:				
Actuarial gains due to experience gains or losses	6,240	-	(5,184)	1,056
Actuarial losses due to changes in financial assumptions	-	(2,776)	-	(2,776)
	6,240	(2,776)	(5,184)	(1,720)
Contributions by employer	639	-	-	639
Benefits paid	(8,656)	8,656	-	-
At 31 December 2017	135,180	(110,576)	(17,083)	7,521

Of the expense for the year, £1,010 thousand (2017: £538 thousand) has been included in the income statement within staff costs (see note 3).

The Company expects to contribute £985 thousand to its defined benefit pension schemes in 2019.

The weighted average duration of the Company's defined benefit obligation is 20 years.

The experience history of the Company's schemes is shown below:

History of defined benefit scheme	2018 £'000	2017 £'000
Funds assets at fair value	120,847	135,180
Present value of fund liabilities	(92,648)	(110,576)
Fund status	28,199	24,604
Asset ceiling	(22,785)	(17,083)
	5,414	7,521
Experience (losses)/gains on plan assets	(5,654)	6,240
Actual (losses)/return on pension scheme assets	(2,312)	9,772

4. Pensions (continued)

The table below sets out the sensitivities of the pension cost for the year and the present value of defined benefit obligations at the balance sheet dates to a change in the principal actuarial assumptions:

	(Decrease)/increase in pension cost for the year		(Decrease)/increase in obligation at 31 December	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
0.25% increase in the discount rate	(48)	(62)	(4,207)	(5,249)
0.25% increase in inflation	23	22	3,828	4,773
0.25% additional rate of increase in pensions in payment	23	22	3,092	3,873
0.25% additional rate of increase in deferred pensions	-	-	713	871
0.25% additional rate of increase in salaries	23	21	481	594
Longevity increase of one year	15	14	2,328	2,870

Pension liabilities are calculated on the central assumptions and under the relevant sensitivity scenarios. The sensitivity to pension liabilities is the difference between these calculations.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Critical accounting policy: Pension

The Company operates two pension schemes: The Isle of Man Pension Fund and The Isle of Man Bank Widows' and Orphans' Fund. The assets of the defined benefit schemes are measured at their fair value at the balance sheet date. Scheme liabilities are measured using the projected unit credit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at the interest rate applicable to high-quality corporate bonds of the same currency and term as the liabilities. Any surplus or deficit of scheme assets over liabilities is recognised on the balance sheet as an asset (surplus) or liability (deficit).

In determining the value of scheme liabilities, financial and demographic assumptions are made including price inflation, pension increase, earnings growth and the longevity of scheme members. A range of assumptions could be adopted in valuing the schemes' liabilities. Different assumptions could significantly alter the amount of the surplus or deficit recognised on the balance sheet and the pension cost charged to the income statement. The assumptions adopted for the Company's pension schemes are set out in note 4 to the financial statements, together with sensitivities of the balance sheet and income statement to changes in those assumptions.

A pension asset of £5,414 thousand was recognised on the balance sheet at 31 December 2018 (2017: £7,521 thousand).

5. Tax

	2018 £'000	2017 £'000
Current tax:		
Charge for the year	1,076	922
Under/(over) provision in respect of prior periods	40	(96)
Total current tax	1,116	826
Deferred tax:		
(Credit)/charge for the year	(3)	10
Tax charge for the year	1,113	836

The actual tax charge differs from the expected tax charge computed by applying the standard rate of income tax of 10% (2017: 10%) as follows:

	2018 £'000	2017 £'000
Operating profit before tax	10,915	9,368
Expected tax charge	1,092	937
Factors affecting the charge for the year:		
Disallowable expenses	26	25
Profits taxed at 0%	(45)	(30)
Prior year adjustment	40	(96)
Actual tax charge for the year	1,113	836

5. Tax (continued)

Deferred tax

	Pension £'000	Accelerated capital allowances £'000	Total £'000
At 1 January 2017	(914)	-	(914)
Charge to income statement	(10)	-	(10)
Credit to other comprehensive income	172	-	172
At 1 January 2018	(752)	-	(752)
Credit to income statement	3	-	3
Credit to other comprehensive income	208	-	208
At 31 December 2018	(541)	-	(541)

Total deferred tax is analysed as follows:

	2018 £'000	2017 £'000
Deferred tax liabilities	(541)	(752)

6. Derivatives

The Company enters into various derivatives to manage foreign exchange and interest rate risks. Derivatives include swaps and forwards. They may be traded over-the-counter (OTC).

Swaps include currency swaps, interest rate swaps, equity and index swaps. A swap is an agreement to exchange cash flows in the future in accordance with a pre-arranged formula. Interest rate swap contracts generally involve exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts.

Forwards include forward foreign exchange contracts and forward rate agreements. A forward contract is a contract to buy or sell a specified amount of a physical or financial commodity, at an agreed price, on an agreed future date.

Forward foreign exchange contracts are contracts for the delayed delivery of currency on a specified future date.

Forward rate agreements are contracts under which two counterparties agree on the interest to be paid on a notional deposit of a specified maturity at a specific future date; there is no exchange of principal.

Options include OTC currency options, interest rate caps and floors and swap options. They are contracts that give the holder the right but not the obligation to buy or sell a specified amount of the underlying physical or financial commodity at an agreed price on an agreed date or over an agreed period. The CVA adjustment will not have a material impact on fair value.

Included in the table below are derivatives entered into during the normal course of business with customers and Group companies:

	2018			2017		
	Notional amounts £'000	Assets £'000	Liabilities £'000	Notional amounts £'000	Assets £'000	Liabilities £'000
Exchange rate contracts						
Spots and forwards -						
RBS entities	131,393	959	1,114	88,410	756	381
Third party	18,218	251	92	14,809	24	389
Interest rate contracts						
RBS entities	92,161	89	11,513	91,993	61	13,743
	241,772	1,299	12,719	195,212	841	14,513
Included in the above are fair value hedge accounting derivatives as follows:						
Interest rate contracts	36,743	-	9,901	25,873	9,235	6,543

Interest rate contracts are used to hedge the risk related to fixed interest rate loans.
The table below shows the gains and losses in relation to interest rate swaps and fair value hedged items. These have gone through the income statement under other operating income.

	2018 £'000	2017 £'000
Gains recognised on the hedge accounting interest rate contracts	1,827	1,916
Losses recognised on the item being hedged	(1,624)	(1,372)
Hedging ineffectiveness	203	544

7. Financial instruments

IFRS 9 'Financial instruments' came into effect on 1 January 2018. IFRS 9 replaces IAS 39. The following table analyse the financial assets and financial liabilities in accordance with the categories of financial instruments in IFRS 9. Assets and liabilities outside the scope of IFRS 9 are shown within other assets and other liabilities.

2018	MFVPL £'000	FVOCI £'000	Amortised cost [1] £'000	Other assets/ liabilities £'000	Total £'000
Assets					
Cash and balances at banks	-	-	18,419	-	18,419
Derivatives	1,299	-	-	-	1,299
Loans to banks- amortised cost	-	-	2,597	-	2,597
Loans to customers- amortised cost	-	-	599,446	-	599,446
Amounts due from holding companies and fellow subsidiaries	-	-	1,055,547	-	1,055,547
Other assets	-	-	-	9,496	9,496
	1,299	-	1,676,009	9,496	1,686,804
Liabilities					
Customer deposits	-	-	1,539,486	-	1,539,486
Derivatives	12,719	-	-	-	12,719
Amounts due to holding companies and fellow subsidiaries	-	-	46,628	-	46,628
Other liabilities	-	-	-	3,190	3,190
	12,719	-	1,586,114	3,190	1,602,023
Equity					84,781
					1,686,804

[1] Amortised cost include cash and cash equivalents.

The following table analyse the financial assets and financial liabilities in accordance with the categories of financial instruments in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown within other assets and other liabilities.

2017	Designated at fair value through profit or loss £'000	Loans and receivables [1] £'000	Amortised cost £'000	Other assets/ liabilities £'000	Total £'000
Assets					
Cash and balances at banks	-	18,265	-	-	18,265
Derivatives	841	-	-	-	841
Loans to banks - amortised cost	-	1,065	-	-	1,065
Loans to customers - amortised cost	-	599,178	-	-	599,178
Amounts due from holding companies and fellow subsidiaries	-	993,522	-	-	993,522
Other assets	-	-	-	17,621	17,621
	841	1,612,030	-	17,621	1,630,492
Liabilities					
Customer deposits	-	-	1,498,417	-	1,498,417
Derivatives	14,513	-	-	-	14,513
Amounts due to holding companies and fellow subsidiaries	-	-	33,672	-	33,672
Other liabilities	-	-	-	7,051	7,051
	14,513	-	1,532,089	7,051	1,553,653
Equity					76,839
					1,630,492

[1] Loans and receivables include cash and cash equivalents.

7. Financial instruments (continued)

The following tables show the financial instruments carried at fair value on the Balance Sheet by valuation hierarchy - Level 1, Level 2 and Level 3. There were no transfers between levels occurring during 2018 or the comparative period.

	2018			
	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
	£'000	£'000	£'000	£'000
Assets				
Derivatives	1,210	89	-	1,299
Liabilities				
Derivatives	1,206	11,513	-	12,719

	2017			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets				
Derivatives	781	60	-	841
Liabilities				
Derivatives	769	13,744	-	14,513

(1) Valued using unadjusted quoted prices in active markets for identical financial instruments.

(2) Valued using techniques based significantly on observable market data. Instruments in this category are valued using:

a) quoted prices for similar instruments or identical instruments in markets which are not considered to be active: or
b) valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

(3) Instruments in this category have been valued using a valuation technique where at least one input (which could have a significant effect on the instrument's valuation) is not based on observable market data. Where inputs can be observed from market data without undue cost and effort, the observed input is used. Otherwise, the Company determines a reasonable level for the input.

Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk. The principal inputs to these valuation techniques are listed below.

- Bond prices - quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.
- Credit spreads - where available, these are derived from prices of credit default swaps or other credit based instruments, such as debt securities. For others, credit spreads are obtained from third party benchmarking services.
- Interest rates - these are principally benchmark interest rates such as the London Inter-Bank Offered Rate (LIBOR) and quoted interest rates in the swap, bond and futures markets.
- Foreign currency exchange rates - there are observable markets both for spot and forward contracts and futures in the world's major currencies.
- Equity and equity index prices – quoted prices are generally readily available for equity shares listed on the world's major stock exchanges major indices on such shares.

7. Financial instruments (continued)

The following table shows the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost, all assets and liabilities carried at amortised cost on the balance sheet fall within level 2 of the valuation methodologies.

	2018 Carrying value £'000	2018 Fair value £'000	2017 Carrying value £'000	2017 Fair value £'000
Financial assets				
Cash and balances at banks	18,419	18,419	18,265	18,265
Loans to banks - amortised cost	2,597	2,597	1,065	1,065
Loans to customers - amortised cost	599,446	591,216	599,178	590,404
Amounts due from holding companies and fellow subsidiaries	1,055,547	1,055,547	993,522	993,522
Financial liabilities				
Customer deposits	1,539,486	1,539,486	1,498,417	1,498,417
Amounts due to holding companies and fellow subsidiaries	46,628	46,628	33,672	33,672

Differences between the carrying value and the fair value of loans and receivables to customers above relate specifically to certain advances that are at fixed interest rates and fixed maturity dates. There is no intention to break any of these advances prior to maturity and the difference between carrying value and fair value is never expected to be realised.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted market values are used where available; otherwise, fair values have been estimated based on discounted expected future cash flows and other valuation techniques. These techniques involve uncertainties and require assumptions and judgements covering prepayments, credit risk and discount rates.

Changes in these assumptions would significantly affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale or settlement. As a wide range of valuation techniques are available, it may be inappropriate to compare the Company's fair value information to independent markets or other financial institutions' fair values.

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are set out below:

Short term financial instruments: The fair value of financial instruments that are of short maturity (3 months or less) approximate their carrying value. This applies mainly to cash and balances at banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks and demand deposits.

Loans to banks and customers

In estimating the Fair value of loans and advances to banks and customers measured at amortised cost, loans are segregated into appropriate portfolios estimated by grouping loans into homogeneous portfolios reflecting the characteristics of the constituent loans and applying a discount rate to the cash flows. The discount rate is based on the market rate applicable at the balance sheet date for a similar portfolio with similar maturity and credit risk characteristics. Two principal methods are used to estimate fair value:

(a) Contractual cash flows are discounted using a market discount rate that incorporates the current spread for the borrower or where that is not observable, the spread for borrowers of a similar credit standing.

(b) Expected cash flows (unadjusted for credit losses) are discounted at the current offer rate for the same or similar products.

Bank deposits and customer deposits

The fair values of deposits are estimated using discounted cash flow valuation techniques.

7. Financial instruments (continued)

Remaining maturity

The following table shows the residual maturity of financial instruments, based on contractual date of maturity.

2018	Less than 12 months £'000	More than 12 months £'000	Total £'000
Assets			
Cash and balances at banks	18,419	-	18,419
Derivatives	820	479	1,299
Loans to banks - amortised cost	2,597	-	2,597
Loans to customers - amortised cost	40,071	559,375	599,446
Amounts due from holding companies and fellow subsidiaries	1,055,521	26	1,055,547
Liabilities			
Customer deposits	1,539,326	160	1,539,486
Derivatives	698	12,021	12,719
Amounts due to holding companies and fellow subsidiaries	46,628	-	46,628

2017	Less than 12 months £'000	More than 12 months £'000	Total £'000
Assets			
Cash and balances at bank	18,265	-	18,265
Derivatives	788	53	841
Loans to banks - amortised cost	1,065	-	1,065
Loans to customers - amortised cost	56,258	542,920	599,178
Amounts due from holding companies and fellow subsidiaries	986,496	7,026	993,522
Liabilities			
Customer deposits	1,482,164	16,253	1,498,417
Derivatives	14,100	413	14,513
Amounts due to holding companies and fellow subsidiaries	33,672	-	33,672

7. Financial instruments (continued)

On balance sheet assets/liabilities

The tables below show the contractual undiscounted cash flows receivable and payable, up to a period of 20 years, including future receipts and payments of interest of financial assets and liabilities by contractual maturity. The balances in the following tables do not agree directly with the consolidated balance sheet, as the tables include all cash flows relating to principal and future coupon payments, presented on an undiscounted basis.

2018	0–3 months £'000	3–12 months £'000	1–3 years £'000	3–5 years £'000	5–10 years £'000	10–20 years £'000	>20 years £'000
Assets by contractual maturity							
Cash and balances at banks	18,419	-	-	-	-	-	-
Derivatives	612	208	390	-	2	29	58
Loans to banks - amortised cost	2,597	-	-	-	-	-	-
Loans to customers - amortised cost	36,007	22,441	60,909	67,814	122,117	288,565	188,668
Amounts due from holding companies and fellow subsidiaries	1,055,263	258	26	-	-	-	-
Liabilities by contractual maturity							
Customer deposits	1,450,264	89,353	169	-	-	-	-
Derivatives	490	208	390	-	111	4,343	7,177
Amounts due to holding companies and fellow subsidiaries	46,628	-	-	-	-	-	-
Guarantees and commitments notional amount							
Guarantees[1]	-	-	-	-	-	-	-
Commitments[2]	96,129	-	-	-	-	-	-
	96,129	-	-	-	-	-	
2017							
Assets by contractual maturity							
Cash and balances at banks	18,265	-	-	-	-	-	-
Derivatives	164	177	490	419	686	539	26
Loans to banks - amortised cost	1,065	-	-	-	-	-	-
Loans to customers - amortised cost	43,514	16,056	17,704	19,138	48,237	252,422	205,418
Amounts due from holding companies and fellow subsidiaries	969,851	16,645	7,026	-	-	-	-
Liabilities by contractual maturity							
Bank deposits	-	-	-	-	-	-	-
Customer deposits	1,429,538	52,952	16,402	-	-	-	-
Derivatives	852	2,088	4,729	4,061	4,980	6,507	216
Amounts due to holding companies and fellow subsidiaries	14,210	19,462	-	-	-	-	-
Guarantees and commitments notional amount							
Guarantees[1]	1,156	-	-	-	-	-	-
Commitments[2]	97,127	-	-	-	-	-	-
	98,283	-	-	-	-	-	

Notes:

[1] The Company is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Company expects most guarantees it provides to expire unused.

[2] The Company has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. The Company does not expect all facilities to be drawn, and some may lapse before drawdown.

8. Loan impairment provisions

Loan exposure and impairment metrics

The table below summarises loan exposures subject to the scope of the IFRS 9 expected credit loss (ECL) framework and the related credit impairment and metrics.

	31 December 2018 £'000
Loans	
Stage 1	588,336
Stage 2	7,928
Stage 3	5,779
Total	602,043
ECL provisions	
-Stage 1	145
-Stage 2	108
-Stage 3	1,404
Total	1,657
ECL provision coverage	
-Stage 1 %	0.02%
-Stage 2 %	1.36%
-Stage 3 %	24.29%
Total	0.28%
ECL charge	920
ECL loss rate (%)	0.2%
Amounts written off	221

Critical accounting estimates

The Company's 2017 loan impairment provisions were established in accordance with IAS 39 in respect of incurred losses. They comprised individual and collective components as more fully explained in the 2017 Annual Report and Accounts. In 2018 the loan impairment provisions have been established in accordance with IFRS 9. Accounting policy 12 sets out how the expected loss approach is applied. At 31 December 2018, customer loan impairment provisions amounted to £1,657 thousand (2017 - £987 thousand). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced. Such evidence includes changes in the credit rating of a borrower, the failure to make payments in accordance with the loan agreement; significant reduction in the value of any security; breach of limits or covenants; and observable data about relevant macroeconomic measures.

The stage 3 impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

The measurement of credit impairment under the IFRS expected loss model depends on management's assessment of any potential deterioration in the creditworthiness of the borrower, its modelling of expected performance and the application of economic forecasts. All three elements require judgments that are potentially significant to the estimate of impairment losses. Further information and sensitivity analysis are on page 37 to 38.

IFRS 9 ECL model design principles

To meet IFRS 9 requirements for ECL estimation, Probability of default (PD), Loss given default (LGD) and Exposure at default (EAD) used in the calculations must be:

- Unbiased - material regulatory conservatism has been removed to produce unbiased model estimates;
- Point-in-time - recognise current economic conditions;
- Forward-looking - incorporated into PD estimates and, where appropriate, EAD and LGD estimates; and
- For the life of the loan - all models produce a term structure to allow a lifetime calculation for assets in Stage 2 and Stage 3.

IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition.

The general approach for the IFRS 9 LGD models has been to leverage the Basel LGD models with bespoke IFRS 9 adjustments to ensure unbiased estimates, i.e. use of effective interest rate as the discount rate and the removal of: downturn calibration, indirect costs, other conservatism and regulatory floors.

For Wholesale, while conversion ratios in the historical data show temporal variations, these cannot (unlike in the case of PD and some LGD models) be sufficiently explained by the Credit-Cycle Index ("CCI") measure and are presumed to be driven to a larger extent by exposure management practices.

8. Loan impairment provisions (continued)

Therefore point-in-time best estimates measures for EAD are derived by estimating the regulatory model specification on a rolling five year window.

Approach for multiple economic scenarios (MES)

The base scenario plays a greater part in the calculation of ECL than the approach to MES. This is discussed further in Note 15.

9. Investment in subsidiary

	2018 £	2017 £
At 1 January	-	100
Disposals	-	(100)
At 31 December	-	-

10. Property, plant and equipment

2018	Freehold Premises £'000	Computers and other equipment £'000	Total £'000
Cost:			
At 1 January 2018	6,149	861	7,010
Additions	296	-	296
At 31 December 2018	6,445	861	7,306
Accumulated depreciation:			
At 1 January 2018	2,846	234	3,080
Depreciation charge for the year	85	179	264
At 31 December 2018	2,931	413	3,344
Net book value at 31 December 2018	3,514	448	3,962

2017	Freehold Premises £'000	Computers and other equipment £'000	Total £'000
Cost:			
At 1 January 2017	5,862	179	6,041
Disposals	(170)	(125)	(295)
Intra group transfers	457	807	1,264
At 31 December 2017	6,149	861	7,010
Accumulated depreciation:			
At 1 January 2017	2,746	172	2,918
Disposals	(33)	(101)	(134)
Depreciation charge for the year	133	163	296
At 31 December 2017	2,846	234	3,080
Net book value at 31 December 2017	3,303	627	3,930

11. Other assets

	2018 £'000	2017 £'000
Property, plant and equipment (see note 10)	3,962	3,930
Prepayments, accrued income and other assets	120	6,170
Retirement benefit assets(see note 4)	5,414	7,521
	9,496	17,621

12. Other liabilities

	2018	2017
	£'000	£'000
Accruals and deferred income	1,276	5,014
Other liabilities	297	422
Current tax liabilities	1,076	863
Deferred tax liabilities	541	752
	3,190	7,051

Provisions of £297 thousand (2017: £422 thousand) are included in other liabilities.

The following amounts are included within provisions:

	Customer redress [1]	Other	Total
	£'000	£'000	£'000
At 1 January 2017	617	653	1,270
Release during the year	-	(174)	(174)
Utilised in year	(285)	(389)	(674)
At 1 January 2018	332	90	422
Implementation of IFRS 9 on 1 January 2018	-	3	3
Charged to the income statement	150	-	150
Released during the year	-	(90)	(90)
Utilised in year	(188)	-	(188)
At 31 December 2018	294	3	297

[1] Customer redress provision

The Company has provided for customer redress in relation to payment protection insurance and other retail products.

Critical accounting policy: Provisions for liabilities and charges

Judgment is involved in determining whether an obligation exists, and in estimating the probability, timing and amount of any outflows. Where the Company can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

Estimates - Provisions are liabilities of uncertain timing or amount, and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably.

13. Called up share capital

	Allotted, called up and fully paid		Authorised	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Equity shares:				
Ordinary shares of £1	7,501	7,501	15,000	15,000
Preference shares of £1	-	-	5	5
Total share capital	7,501	7,501	15,005	15,005

	Allotted, called up and fully paid		Authorised	
	2018	2017	2018	2017
Number of shares	£'000	£'000	£'000	£'000
Equity shares:				
Ordinary shares of £1	7,501	7,501	15,000	15,000
Preference shares of £1	-	-	5	5
	7,501	7,501	15,005	15,005

14. Leases

The company provides asset finance to its customers through acting as a lessor. It purchases plant and equipment, renting them to customers under lease agreements that, depending on their terms, qualify as either operating or finance leases.

Finance leases are set out in the table below. Amounts receivable under non-cancellable leases:

	Finance lease contracts					
	2018			2017		
Year in which receipt will occur:	Gross amounts	Present value adjustments	Present value	Gross amounts	Present value adjustments	Present value
	£'000	£'000	£'000	£'000	£'000	£'000
Within 1 year	3,250	-	3,250	3,404	-	3,404
After 1 year but within 5 years	12,996	(1,873)	11,123	13,614	(1,873)	11,741
After 5 years	16,245	(5,804)	10,441	20,422	(7,341)	13,081
	32,491	(7,677)	24,814	37,440	(9,214)	28,226

The finance lease agreements are all in the property sector. The average term of the finance lease entered into is 23 years.

The average effective interest rate in relation to finance lease agreements approximates to 6.6%.

Unguaranteed residual values are estimated at nil (2017: nil).

Operating leases (lessee) are set out in the table below. Minimum amounts payable under non–cancellable leases:

	Operating lease contracts			
	2018			
Year in which payment will occur:	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	£'000	£'000	£'000	£'000
Operating lease obligations:				
Premises	1,022	4,088	4,571	9,681

	2017			
Year in which payment will occur:	Within 1 year	After 1 year but within 5 years	After 5 years	Total
	£'000	£'000	£'000	£'000
Operating lease obligations:				
Premises	1,014	4,058	5,479	10,551

	2018	2017
	£'000	£'000
Amounts recognised as income and expense		
Operating lease payables – minimum payments	1,052	1,014

15. Risk management

The major risks associated with the Company's businesses are market, liquidity, credit, capital, operational and pension risk. A comprehensive framework has been established for managing these risks which is continually evolving as the Company's business activities change in response to market, credit, product and other developments. The Company is a wholly owned subsidiary of The Royal Bank of Scotland International (Holdings) Limited.

As discussed in the Report of the Directors, the Board is collectively responsible for the long term success of the Company and delivery of sustainable shareholder value. The roles of Chairman and Chief Executive Officer (CEO) are distinct and separate, with a clear division of responsibilities. The Chairman leads the Board and ensures effective engagement and contribution of all executive, non-executive and independent non-executive directors. The CEO has responsibility for all businesses and acts in accordance with authority delegated from the Board. The independent non-executive directors combine broad business and commercial experience with independent and objective judgement and they provide independent challenge to the executive directors and leadership team.

Market risk

Market risk is the risk that changes in interest rates, foreign exchange rates, prices, volatilities and correlations may have an adverse financial impact on the Company's financial condition or results.

Market risk includes:

Interest rate risk
Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, unexpected changes in the slope and shape of the yield curves and changes in the correlation of interest rates between different financial instruments.

In addition to interest rate risk positions managed within controlled risk limits by the Treasury unit, structural interest rate risk arises in the consolidated balance sheet as a result of fixed rate, variable rate and non-interest bearing assets and liabilities. Exposure to interest rate movements arises when there is a mis-match between interest rate sensitive assets and liabilities. The Company closely monitors interest rate movements, the interest rate and re-pricing maturity structure of its interest bearing assets and liabilities and the level of non-interest bearing assets and liabilities. In order to reduce the effect of fluctuating interest rates on net interest income, the composition of non-trading interest rate risk is assessed and funding positions or other derivative transactions are hedged with RBS.

Currency risk
All transactional (or non-structural) currency exposure risk is managed by the Treasury unit and there remains a small immaterial open position which is measured on a daily basis within set limits. The principal non-sterling currencies in which the Company has transactional currency exposure are US Dollar and the Euro.

Value-at-Risk ("VaR")

The Company manages market risk through VaR limits as well as stress testing, position and sensitivity limits. VaR is a technique that produces estimates of the potential negative change in the market value of a portfolio over a specified time horizon at a given confidence level. The table below sets out the VaR for the Company, which assumes a 99% confidence level and a one-day time horizon.

	31 December 2018 £'000	Maximum £'000	Minimum £'000	Average £'000
Value-at-Risk	47	47	4	9

	31 December 2017 £'000	Maximum £'000	Minimum £'000	Average £'000
Value-at-Risk	9	10	2	6

VaR is a statistical estimate of the potential change in the market value of a portfolio (and, thus, the impact on the income statement) over a specified time horizon at a given confidence level. RBS's standard VaR metrics – which assume a time horizon of one trading day and a confidence level of 99% – are based on interest rate repricing gaps at the reporting date. Daily rate moves are modelled using observations from the last 500 business days. These incorporate customer products plus associated funding and hedging transactions as well as non-financial assets and liabilities. Behavioural assumptions are applied as appropriate.

The non-traded interest rate risk VaR metrics for RBS's retail and commercial banking activities are included in the banking book VaR table above. The VaR captures the risk resulting from mismatches in the repricing dates of assets and liabilities.

It includes any mismatch between structural hedges and stable non and low interest-bearing liabilities such as equity and money transmission accounts as regards their interest rate repricing behavioural profile.

15. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its commitments when they fall due, or can secure them only at excessive cost. The Company performs daily liquidity monitoring to ensure compliance with limits set by the regulators in the jurisdiction within which it operates. Quarterly reports are made to ALCO and the Board covering Sterling and currency liquidity.

The ultimate parent company, The Royal Bank of Scotland Group plc, is required by the Financial Conduct Authority to meet its Sterling obligations without recourse to the wholesale money market for a period of at least five business days. The Company manages its capital and liquidity, including drawing on support provided by the UK government and central banks in response to market conditions, in a responsible manner that continues to provide sufficient capital resources and liquidity for the Company to meet its obligations as they fall due.

Liquidity risk is monitored daily with performance reported to ALCO regularly.

Financial assets have been reflected in the time band of the latest date on which they could be repaid unless earlier repayment can be demanded by the reporting entity; financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty.

If the repayment of a financial asset or liability is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the latest date on which it can repay regardless of early repayment whereas the liability is included at the earliest possible date that the conditions could be fulfilled without considering the probability of the conditions being met. For example, if a structured note is automatically prepaid when an equity index exceeds a certain level, the cash outflow will be included in the less than three months period whatever the level of the index at the year end. As the repayment of assets and liabilities are linked, the repayment of assets in securitisations are shown on the earliest date that the asset can be prepaid as this is the basis used for liabilities.

The Company's contractual maturity is covered in Note 7.

This table shows the residual maturity of financial instruments, based on contractual date of maturity. Amounts due from/to holding and fellow subsidiaries and Mandatory fair value through profit or loss (MFVTPL) assets and liabilities have been excluded from the maturity analysis due to their short-term nature and are shown in total in the table below. Hedging derivatives are included in the relevant maturity bands.

	Other than MFVTPL												
	Less than 1 month	1–3 months	3–6 months	6 months-1 year	Subtotal	1–3 years	3–5 years	More than 5 years	Total excluding MFVTPL	MFVTPL	Impairment provisions	Amounts due from/to holding and fellow subsidiaries	Total
2018	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at banks	18,419	-	-	-	18,419	-	-	-	18,419	-	-	-	18,419
Derivatives	-	-	-	-	-	-	-	-	-	1,299	-	-	1,299
Loans to banks - amortised cost	2,597	-	-	-	2,597	-	-	-	2,597	-	-	-	2,597
Loans to customers - amortised cost	27,791	5,474	649	6,157	40,071	24,212	36,593	500,227	601,103	-	(1,657)	-	599,446
Personal	2,790	34	104	943	3,871	7,207	11,441	349,702	372,221	-	-	-	372,221
Corporate	24,696	5,440	543	5,214	35,893	17,005	25,152	150,525	228,575	-	(1,657)	-	226,918
Financial institutions (excluding banks)	305	-	2	-	307	-	-	-	307	-	-	-	307
Total financial assets	48,807	5,474	649	6,157	61,087	24,212	36,593	500,227	622,119	1,299	(1,657)	1,055,547	1,677,308
2017													
Total financial assets	67,645	1,497	3,511	10,579	83,232	17,704	19,138	499,126	619,200	841	(692)	993,522	1,612,871
2018													
Customer deposits	1,339,394	110,811	43,399	45,722	1,539,326	160	-	-	1,539,486	-	-	-	1,539,486
Personal	765,922	15,053	40,833	42,234	864,042	160	-	-	864,202	-	-	-	864,202
Corporate	302,278	25,954	18	927	329,177	-	-	-	329,177	-	-	-	329,177
Financial institutions (excluding banks)	271,194	69,804	2,548	2,561	346,107	-	-	-	346,107	-	-	-	346,107
Derivatives	-	-	-	-	-	-	-	-	-	12,719	-	-	12,719
Total financial liabilities	1,339,394	110,811	43,399	45,722	1,539,326	160	-	-	1,539,486	12,719	-	46,628	1,598,833
2017													
Total financial liabilities	1,378,248	51,263	18,020	34,633	1,482,164	16,253	-	-	1,498,417	14,513	-	33,672	1,546,602

15. Risk management (continued)

Credit risk (including counterparty risk)

Credit risk is the risk that the Company will incur losses owing to the failure of customers to meet their financial obligations to the Company. The most important step in managing this risk is the initial decision whether or not to extend credit. The Company's strong credit culture extends to the management of resultant exposures via individual counterparty and concentration limits and the monitoring of counterparty credit worthiness as described below.

The Company has exposure to entities by making placements and advances to those counterparties. The Board of Directors reviews the placement of deposits to The Royal Bank of Scotland Group. The Group is majority owned by the UK Government and draws on support provided by central banks where required in order to meet its commitments including those to the Company. During the year most of the intergroup placements are with RBSI Ltd.

The day-to-day management of credit risk is devolved to a specialist credit function, which perform regular appraisals of counterparty credit quality through the analysis of qualitative and quantitative information. Credit authority is based on defined limits. If the Company requires collateral, this may be cash, or more commonly, security over a customer's assets.

Impairment, provisioning and write-offs

Refer to Accounting policies – 11 Impairment of financial assets.

Transition from IAS 39 to IFRS 9

The Company implemented IFRS 9 with effect from 1 January 2018 with no restatement of comparatives other than the day one impact on implementation reflected in opening equity.

Cash flows and cash losses are unchanged by the change in impairment framework from IAS 39 to IFRS 9. IFRS 9 has changed the basis of loss calculation to expected loss (i.e. forward looking), as opposed to the incurred loss model under IAS 39, which focused only on losses that had already occurred. There are a number of changes as well as judgements involved in measuring ECL. New elements include:

- Move from incurred loss model to expected loss model, including all performing assets having 12 month ECL on origination.
- Determination of significant increase in credit risk – this moves a subset of assets from a 12 month ECL (Stage 1) to lifetime ECL (Stage 2) when credit risk has increased since origination.
- Change in scope of impaired assets (Stage 3).
- Incorporation of forward-looking information, including multiple economic scenarios (MES) – MES are assessed in order to identify non-linearity in the portfolio.

Transition from IAS 39 to IFRS 9

Key differences in moving from IAS 39 to IFRS 9 on impairment loss	Total £'000
Impact of IFRS 9 – third party	57
Impact of IFRS 9 - intercompany	(43)
1 January 2018 – IFRS 9 ECL	14

- The overall provisioning requirement under IFRS 9 decreased by £14 thousand relative to IAS 39. The main driver of the decrease is the requirement to hold a minimum of 12 months of ECL on performing assets and decreasing to lifetime loss for assets that have exhibited a significant decrease in credit risk.
- Compared with the latent loss provision held under IAS 39, the ECL requirement on performing assets (Stages 1 and 2) more than doubled.
- The IFRS 9 provisioning requirement on non-performing assets in Stage 3 is affected less. The ECL requirement is higher compared with IAS 39 impaired portfolio provisions principally on defaulted assets that did not carry a provision reflecting expectation of full recovery under IAS 39.

The key elements of IFRS 9 impairment provisions:

IFRS 9 introduced additional complexity into the determination of credit impairment provisioning requirements. However, the building blocks that deliver an ECL calculation already existed in the Company. Existing Basel models were used as a starting point in the construction of IFRS 9 models, which also incorporate term extension and forward-looking information.

Five key areas may materially influence the measurement of credit impairment under IFRS 9 – two of these relate to model build and three to their application:

- Model build:
    - The determination of economic indicators that have most influence on credit loss for each portfolio and the severity of impact (this leverages existing stress testing mechanisms).
    - The build of term structures to extend the determination of the risk of loss beyond 12 months that will influence the impact of lifetime loss for assets in Stage 2.
- Model application:
    - The assessment of the significant increase in credit risk and the formation of a framework capable of consistent application.
    - The determination of asset lifetimes that reflect behavioural characteristics whilst also representing management actions and processes (using historical data and experience).
    - The determination of a base case (or central) economic scenario which has the most material impact (of all forward-looking scenarios) on the measurement of loss (the Company uses consensus forecasts to remove management bias).

15. Risk management (continued)

Credit risk (including counterparty risk) (continued)

Policy elections and simplifications relating to IFRS 9:

In addition to the five critical judgments above, which are relevant from period to period, there was one further significant judgment that was made as a one-off exercise to support the day one implementation: this was the application of the new IFRS 9 models to the determination of origination date metrics. Since it is not possible to determine the economic forecasts and alternative scenarios going backwards in time it is necessary to use a series of assumptions to enable this process. The Company has assumed a flat forward view for all dates historically. There were some other less significant judgments, elections and simplification assumptions that informed the ECL process; these were not seen as 'critical' in determining the appropriate level of impairment but represented choices taken by management across areas of estimation uncertainty. The main examples of these are:

- Models – for example in the case of some low default portfolios, Basel parameter estimates have been applied for IFRS 9.
- Discounting of future losses – the ECL calculation is based on expected future cash-flows. These are discounted using the EIR – for practical purposes, this is typically applied at a portfolio level rather than being established and operated at an individual asset level; and
- Multiple Economic Scenario (MES) – it is the selection of the central (or base) scenario that is most critical to the ECL calculation, independent of the method used to generate a range of alternative outcomes and their probabilities. Different approaches to model MES around the central scenario have all been found of low significance for the overall ECL impact.

Economic loss drivers

The forecasts applied for IFRS 9 are those used for financial planning. The base case economic scenario is the primary driver of the calculation of ECL. Portfolio segmentation and selection of economic loss drivers follow closely the approach already used in stress testing. To enable robust modelling, the two or three primary economic factors impacting loss for each portfolio are selected. This involves empirical analysis and expert judgment.

Base case economic scenario

The base case economic scenario is the primary driver of the calculation of ECL, and is also an integral component within the Company's approach to MES. We summarise the key elements of our current economic base case:

- United Kingdom: Our central scenario projects modest growth in the UK economy, in line with the consensus outlook. Brexit related uncertainty results in subdued confidence in the near term, placing it in the lower quartile of advanced economies. Business investment is weak at the start of the forecast, improving only gradually. Consumer spending rises steadily as households benefit from falling inflation and rising wage growth, though it is a modest upturn. The central scenario assumes much slower job growth than seen in recent years, meaning unemployment edges up from its current historic lows. House price growth slows, extending the current slowdown, before picking up to low single digit growth in later years.

Monetary policy follows the market implied path for Bank of England bank rate at the time the scenarios were set, thus we assume only two further hikes over the next five years.

Approach for multiple economic scenarios (MES)

The base case economic scenario is the primary driver of the calculation of ECL, and is an integral component of the Company's approach to MES.

IOMB Retail remains Basel standardised for Risk Weighted Assets, therefore modelled Probability of Default (PDs) and Loss Given Default (LGDs) are not available for calculating stage 1 and stage 2 ECLs. Instead this is undertaken by the sourcing the equivalent product PD & LGD from within NatWest UK Personal, which was identified as the closest comparable portfolio to IOMB Retail. The PD and LGD benchmarks are then used, along with the known exposure, to calculate an account level ECL.

In order to identify accounts showing stage 2 credit deterioration the IOMB Retail Watch classification is applied where accounts are identified as having clear signs of credit deterioration, increased risk of default and/or loss or have been given forbearance, with days past due being checked as supplementary back stop.

In Retail, the approach to multiple scenarios is based on using discrete scenarios, where the latest central scenario or base case is applied to reflect the forward looking element of the model (the Single economic Scenario view) and probability-weighting the outputs from a further four bespoke scenarios – a base case upside downside – and an additional upside and downside.

The Wholesale credit models framework utilises Credit Cycle Indices (CCI) to measure the point-in-time default rate conditions in a comprehensive set of region / industry groups. As in Retail, the 'central scenario' is RBS's internal base case but we apply an adjustment starting after the first projected year to enforce a gradual reversion long run average CCI conditions. The methodology to model the impact of multiple economic scenarios around the central scenario is based on a Monte Carlo simulation approach. This involves simulating a large number of alternative scenarios around the CCI projection that corresponds to the central macro base case. The resulting forward-looking PD and ECL projections are then averaged across all simulated scenarios to form multi scenario expectations. For both Retail and Wholesale in terms of practical application, the impact from MES is factored in to account level PDs through a scalar. These MES adjusted PDs are used to assess whether a significant increase in credit risk has occurred.

Key economic loss drivers - average over the five year planning horizon (2018 to 2022 for 1 January 2018 and 2019 to 2023 for 31 December 2018) - in the most relevant planning cycle for the central base case and two upside and downside scenarios used for ECL modelling are set out below:

Probability weightings of scenarios

Our approach to IFRS 9 multiple economic scenarios involves selecting suitable scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights to those scenarios.

15. Risk management (continued)

Credit risk (including counterparty risk) (continued)

Probability weightings of scenarios (continued)

This has the following basic steps:

- Scenario selection – for the 2018 we have chosen two upside and two downside scenarios from Moody's inventory of scenarios. Our aim is to obtain downside scenarios that are not as extreme as stress tests, so typically have a severity of around 1 in 10 and 1 in 5 of approximate likelihood, along with corresponding upsides.
- Severity assessment – having selected the most appropriate scenarios we then assess their severity based on the behaviour of UK GDP by calculating a variety of measures such as average GDP growth deviation from base and peak to trough falls in GDP. These measures are compared against a set of 1,000 model runs and we establish what percentile in the distribution most closely corresponds with each scenario.
- Probability assignment – having established the relevant percentile points we assign probability weights to ensure that the scenarios produce an unbiased result. If the severity assessment step shows the scenarios to be broadly symmetric, then this will result in a symmetric probability weighting (same probability weight above and below the base case, as was used in the first half of 2018). However if the downsides are not as extreme as the upsides, then we allocate more probability weight to the downsides to ensure the unbiasedness requirement is satisfied (as was the case in the second half of 2018). This adjustment is made purely to restore unbiasedness, not to address any relative skew in the distribution of risks in the economic outlook, which is dealt with through overlays and covered in the section on UK economic uncertainty.

UK economic uncertainty

This analysis has been prepared during the run up to the UK leaving the European Union and as a result there is greater than usual uncertainty over the UK economic outlook. Our approach to capturing that elevated uncertainty is to apply an overlay to MES that is based on recognising a proportion of the ECL of a downside scenario that captures key elements of an alternative path the economy could take.

IFRS 9 Credit risk modelling

IFRS 9 introduced lifetime ECL for the measurement of credit impairment. This required the development of new models or the enhancement of existing Basel models. IFRS 9 ECLs are calculated using a combination of:

- Probability of default ;
- Loss given default ; and,
- Exposure at default.

IFRS 9 ECL model design principles

In addition, lifetime PDs (as at reporting date and at date of initial recognition) are used in the assessment of a significant increase in credit risk criteria.

To meet IFRS 9 requirements for ECL estimation, PD, LGD and EAD used in the calculations must be:

- Unbiased - material regulatory conservatism has been removed to produce unbiased model estimates.
- Point-in-time - recognise current economic conditions.
- Forward-looking - incorporated into PD estimates and, where appropriate, EAD and LGD estimates.
- For the life of the loan - all models produce a term structure to allow a lifetime calculation for assets in Stage 2 and Stage 3.

IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition.

For assets originated before IFRS 9 was introduced, comparable lifetime origination PDs did not exist. These have been retrospectively created using the relevant model inputs applicable at initial recognition. Due to data availability two practical measures have been taken:

- Where model inputs were not available at the point of initial recognition the earliest available robust metrics were used. For instance, since Basel II was introduced in 2008, the earliest available and reliable production Basel PDs range from between December 2007 and April 2008 depending on the portfolio; and
- Economic conditions at the date of initial recognition have been assumed to remain constant from that point forward.

Wholesale Models

Wholesale PD models use the existing Credit-Cycle Index ("CCI") based point-in-time/through-the-cycle framework to convert one year regulatory PDs into point-in-time estimates that reflect current economic conditions across a comprehensive set of region/industry segments.

One year point-in-time PDs are then extrapolated to multi-year PDs using a conditional transition matrix approach. The conditional transition matrix approach allows the incorporation of forward-looking information by adjusting the credit state transition probabilities according to projected, forward-looking changes of credit conditions in each region/industry segment.

This results in forward-looking point-in-time PD term structures for each obligor from which the lifetime PD for a specific exposure can be calculated according to the exposure's residual contractual maturity.

The models produce quarterly PDs, which can be accumulated over four quarters to provide Stage 1 one year PDs and over the remaining lifetime to provide lifetime PDs for accounts in Stage 2.

PD estimates

LGD estimates

The general approach for the IFRS 9 LGD models has been to leverage the Basel LGD models with bespoke IFRS 9 adjustments to ensure unbiased estimates, i.e. use of effective interest rate as the discount rate and the removal of: downturn calibration, indirect costs, other conservatism and regulatory floors. For Wholesale, current and forward-looking economic information is incorporated into the LGD estimates using the existing CCI framework. For low default portfolios (e.g. Sovereigns) loss data is too scarce to substantiate estimates that vary with systematic conditions. Consequently, for these portfolios, LGD estimates are assumed to be constant throughout the projection horizon.

15. Risk management (continued)

Credit risk (including counterparty risk) (continued)

EAD estimates

For Wholesale, while conversion ratios in the historical data show temporal variations, these cannot (unlike in the case of PD and some LGD models) be sufficiently explained by the CCI measure and are presumed to be driven to a larger extent by exposure management practices. Therefore point-in-time best estimates measures for EAD are derived by estimating the regulatory model specification on a rolling five year window.

For loans in the Wholesale portfolio, amortisation profiles are applied to the outstanding balances, rather than modelling future behaviour.

Significant increase in credit risk

Exposures that are considered significantly credit deteriorated since initial recognition are classified in Stage 2 and assessed for lifetime ECL measurement (exposures not considered deteriorated carry a 12 month ECL). The Company has adopted a framework to identify deterioration based primarily on movements in probability of default supported by additional backstops. The principles applied are consistent across RBS and align to credit risk management practices.

The framework comprises the following elements:

- IFRS 9 lifetime PD assessment (the primary driver) - on modelled portfolios the assessment is based on the relative deterioration in forward-looking lifetime PD and is assessed monthly. To assess whether credit deterioration has occurred, the residual life-time PD at balance sheet date (which PD is established at Date of Initial Recognition) is compared to the current PD. If the current life-time PD exceeds the residual origination PD by more than a threshold amount deterioration is assumed to have occurred and the exposure transferred to Stage 2 for a life-time loss assessment. In broad terms, a doubling of PD would indicate significant credit deterioration. However, on wholesale, the PD uplift must be at least 0.1% and on retail the criteria varies by risk band with lower risk exposures needing to deteriorate more than higher risk exposures.
- Qualitative high-risk backstops – The PD assessment is complemented with the use of qualitative high-risk backstops to further inform whether significant deterioration in lifetime risk of default has occurred. The qualitative high risk backstop assessment includes the use of the mandatory 30+ days past due backstop, as prescribed by IFRS 9 guidance, and other features such as forbearance support, Wholesale exposures managed within the Risk of Credit Loss and heightened monitoring framework, adverse credit bureau on Retail.

The criteria are based on a significant amount of empirical analysis and seek to meet three key objectives:

- Criteria effectiveness – the criteria should be effective in identifying significant credit deterioration and prospective default population.
- Stage 2 stability – the criteria should not introduce unnecessary volatility in the Stage 2 population.
- Portfolio analysis – the criteria should produce results which are intuitive when reported as part of the wider credit portfolio.

Asset lifetimes

The choice of initial recognition and asset duration (lifetime) is another critical judgement in determining the quantum of lifetime losses that apply.

- The date of initial recognition reflects the date that a transaction (or account) was first recognised on the balance sheet; the PD recorded at this time provides the baseline used for subsequent determination of SICR.
- For asset duration, the approach applied (in line with IFRS 9 requirements) is:
    - Term lending- the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected pre-payment and amortisation).

Retail Non Modelled portfolio

IOMB Retail remains Basel standardised for Risk Weighted Assets, therefore modelled Probability of Default (PDs) and Loss Given Default (LGDs) are not available for calculating stage 1 and stage 2 ECLs. Instead this is undertaken by the sourcing the equivalent product PD & LGD from within NatWest UK, which was identified as the closest comparable portfolio to RBSI Retail. The PD and LGD benchmarks are then used, along with the known exposure, to calculate an account level ECL.

In order to identify accounts showing stage 2 the IOMB Retail Watch classification is applied where accounts are identified as having clear signs of credit deterioration, increased risk of default or have been given forbearance, with days past due being checked as supplementary back stop.

Measurement uncertainty and ECL sensitivity analysis

The recognition and measurement of expected credit losses ('ECL') is highly complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9.

The ECL provision is sensitive to the model inputs and economic assumption underlying the estimate. Set out below are the impact of some of the material sensitivities considered for 2018 year end impairment provision.

We considered the following approaches:

- Economic uncertainty: reflecting the impact of alternative economic scenarios:
    - HPI (House Price index): is a key economic driver and we have evaluated a univariate scenario of a 5 % decrease in HPI across all secured portfolios. A univariate analysis using only HPI does not allow the interdependence across the other key primary loss drivers to be reflected in any ECL estimate. The simulated impact is based on 100% probability weighting to demonstrate the sensitivity of HPI on our central base case. The HPI scenario has been evaluated for secured portfolios only.

15. Risk management (continued)

- Downside 2 scenario: to complement the HPI shift impact, we used Downside 2 as a single scenario (100% weighted basis). This scenario reflects a severe economic recession. This scenario has been applied to all modelled portfolios in the analysis below. For some portfolios this creates a significant impact on ECL but for others less so but on balance the approach is deemed reasonable.
- Portfolio risk: evaluating the impact of one of the key metrics, PD. We implemented a relative 25% shift in PDs.

The ECL provision is sensitive to the ECL calculation inputs and economic assumptions underlying the estimate.

Set out below is the impact of some of the material sensitivities considered for 2018 year end reporting. Given the current benign environment for impairments the focus is on downsides to the existing ECL provision levels and on performing Stage 1 and Stage 2 exposures. As default is an observed event at the balance sheet date, stage 3 provisions are not subject to the same level of measurement uncertainty, and therefore have not been considered in this analysis.

We considered two approaches:

- Economic uncertainty: replacing the existing base case economic assumptions with the Downside 2 scenario, one of the five discrete scenarios used in IOMB's planning process and also in ECL calculation, resulted in an ECL uplift of 3.7% (£6 thousand).
- Portfolio risk: relative 25% upward shift in probability of default (PD), one of the key metrics in ECL calculation, resulted in a potential ECL uplift of 11.8% (£19 thousand).

Key IFRS 9 terms and differences to current accounting and regulatory framework

Attribute	IFRS 9	IAS 39	Regulatory (CRR)[(1)]
Default / credit impairment	To determine the risk of a default occurring, management applies a default definition that is consistent with the Basel/Regulatory definition of default. Assets that are defaulted are shown as credit impaired. RBS uses 90 days past due as a consistent measure for default across all product classes. The population of credit impaired assets is broadly consistent with IAS 39, though measurement differs because of the application of MES. Assets that were categorised as potential problems with no impairment provision are now categorised as Stage 3.	Default aligned to loss events, all financial assets where an impairment event has taken place - 100% probability of default and an internal asset quality grade of AQ10 - are classed as non-performing. Impaired financial assets are those for which there is objective evidence that the amount or timing of future cash flows have been adversely impacted since initial recognition.	A default shall be considered to have occurred with regard to a particular financial asset when either or both of the following have taken place: - RBS considers that the customer is unlikely to pay its credit obligations without recourse by the institution to actions such as realising security; - the customer is past due more than 90 days. For Retail exposures, the definition of default may be applied at the level of an individual credit facility rather than in relation to the total obligations of a borrower.
Probability of default	PD is the likelihood of default assessed on the prevailing economic conditions at the reporting date (point in time), adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default; it will not equate to a long run average.	Regulatory PDs adjusted to point in time metrics are used in the latent provision calculation.	The likelihood that a customer will fail to make full and timely repayment of credit obligations over a one year time horizon. For Wholesale, PD models reflect losses that would arise through-the-cycle; this represents a long run average view of default levels. For Retail, the prevailing economic conditions at the reporting date (point in time) are used.
Significant increase in credit risk	A framework incorporating both quantitative and qualitative measures aligned to the Group's current risk management framework has been established. Credit deterioration will be a management decision, subject to approval by governing bodies such as the Group Provisions Committee. The staging assessment requires a definition of when a SICR has occurred refer accounting policy 12; this moves the loss calculation for financial assets from a 12 month horizon to a lifetime horizon. Management has established an approach that is primarily informed by the increase in lifetime probability of default, with additional qualitative measures to account for assets where PD does not move, but a high risk factor is determined	Not applicable.	Not applicable.

(1) Capital Requirements Regulation (CRR) is a UK regulatory requirement, which has been included for reference purposes only.

15. Risk management (continued)

Key IFRS 9 terms and differences to current accounting and regulatory framework (continued)

Attribute	IFRS 9	IAS 39	Regulatory (CRR)(1)
Forward-looking and multiple scenarios	The evaluation of future cash flows, the risk of default and impairment loss should take into account expectations of economic changes that are reasonable. More than one outcome should be considered to ensure that the resulting estimation of impairment is not biased towards a particular expectation of economic growth.	Financial asset carrying values based upon the expectation of future cash flows.	Not applicable.
Loss given default	LGD is a current assessment of the amount that will be recovered in the event of default, taking account of future conditions. It may occasionally equate to the regulatory view albeit with conservatism and downturn assumptions generally removed.	Regulatory LGD values are often used for calculating collective and latent provisions; bespoke LGDs are also used.	An estimate of the amount that will not be recovered in the event of default, plus the cost of debt collection activities and the delay in cash recovery. LGD is a downturn based metric, representing a prudent view of recovery in adverse economic conditions.
Exposure at default	Expected balance sheet exposure at default. It differs from the regulatory method as follows: - it includes the effect of amortisation; and - it caps exposure at the contractual limit.	Based on the current drawn balance plus future committed drawdowns.	Models are used to provide estimates of credit facility utilisation at the time of a customer default, recognising that customers may make further drawings on unused credit facilities prior to default or that exposures may increase due to market movements. EAD cannot be lower than the reported balance sheet, but can be reduced by a legally enforceable netting agreement.
Date of initial recognition (DOIR)	The reference date used to assess a significant increase in credit risk is as follows. Term lending: the date the facility became available to the customer. Wholesale revolving products: the date of the last substantive credit review (typically annual) or, if later, the date facility became available to the customer. Retail Cards: the account opening date or, if later, the date the card was subject to a regular three year review or the date of any subsequent limit increases. Current Accounts/ Overdrafts: the account opening date or, if later, the date of initial granting of overdraft facility or of limit increases.	Not applicable for impairment but defined as the date when the entity becomes a party to the contractual provisions of the instrument.	Not applicable.
Modification	A modification occurs when the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in derecognition. A modification requires immediate recognition in the income statement of any impact on the carrying value and effective interest rate (EIR) or examples of modification events include forbearance and distressed restructuring. The financial impact is recognised in the income statement as an impairment release/(loss).	Modification is not separately defined but accounting impact arises as an EIR adjustment on changes that are not derecognition or impairment events.	Not applicable.

(1) Capital Requirements Regulation (CRR) is a UK regulatory requirement, which has been included for reference purposes only.

15. Risk management (continued)

ECL Flow Statement

The table below shows the key elements that drive the movement of ECL and related income statement over the reporting period, including the following key elements:

	ECL Stage 1 and Stage 2 £'000	ECL Stage 3 £'000	Total £'000
Opening balance as at 1 January 2018	238	692	930
Provision charge	15	913	928
Other movements including write offs	-	(201)	(201)
Closing balance as at 31 December 2018	253	1404	1657

Credit risk

Maximum credit risk exposure and significant concentrations of credit risk are illustrated in the table below:

2018	Gross loans and advances to banks and customers £'000	Derivatives £'000	Total £'000	Netting and offset [1] £'000	Exposure post netting and offset £'000
UK and Crown Dependencies					
Central and local government	189,237	-	189,237	(62,275)	126,962
Manufacturing	2,224	-	2,224	-	2,224
Construction	4,481	-	4,481	-	4,481
Finance	1,066,940	1,299	1,068,239	-	1,068,239
Service industries and business	2,907	-	2,907	-	2,907
Agriculture, forestry and fishing	6,731	-	6,731	-	6,731
Property	27,727	-	27,727	-	27,727
Individuals	10,634	-	10,634	-	10,634
Home mortgages	361,587	-	361,587	-	361,587
Finance leases and instalment credit	24,814	-	24,814	-	24,814
Other	24,240	-	24,240	-	24,240
Total UK and Crown Dependencies	1,721,522	1,299	1,722,821	(62,275)	1,660,546

2017	Gross loans and advances to banks and customers £'000	Derivatives £'000	Total £'000	Netting and offset [1] £'000	Exposure post netting and offset £'000
UK and Crown Dependencies					
Central and local government	194,994	-	194,994	(60,159)	134,835
Manufacturing	1,945	-	1,945	-	1,945
Construction	4,457	-	4,457	-	4,457
Finance	1,001,558	841	1,002,399	-	1,002,399
Service industries and business	3,992	-	3,992	-	3,992
Agriculture, forestry and fishing	7,177	-	7,177	-	7,177
Property	28,060	-	28,060	-	28,060
Individuals	10,055	-	10,055	-	10,055
Home mortgages	356,744	-	356,744	-	356,744
Finance leases and instalment credit	26,571	-	26,571	-	26,571
Other	19,358	-	19,358	-	19,358
Total UK and Crown Dependencies	1,654,911	841	1,655,752	(60,159)	1,595,593

[1] This column shows the amount by which the Company's credit risk exposures is reduced through arrangements, such as master netting agreements, which give the Company a legal right to set-off the financial asset against a financial liability due to the same counterparty. In addition, the Company holds collateral in respect of individual loans and advances to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade receivables; and guarantees of lending from parties other than the borrower. The Company obtains collateral in the form of securities in reverse repurchase agreements. Cash and securities are received as collateral in respect of derivative transactions.

Gross assets of £62,275 thousand (2017: £60,159 thousand) and gross liabilities of £62,275 thousand (2017: £60,159 thousand), are subject to netting arrangements. The asset balances included above consist of only Customer deposits and Loans and advances to banks and customers which have been offset with the full amount of the liability balances of £62,275 thousand (2017: £60,159 thousand) in accordance with the offsetting rules of IAS 32.

15. Risk management (continued)

Collateral and credit enhancement - Total

The table below summarises financial asset exposures within the scope of the ECL framework as well as credit mitigation and credit enhancements.

31-Dec-18	Gross exposure	ECL	Maximum exposure to credit risk	Maximum exposure to credit risk: of which stage 3	Credit enhancements					Total credit enhancements	Total credit enhancements: of which stage 3	Exposure post credit mitigation & enhancement	Exposure post credit mitigation & enhancement: of which stage 3
						Collateral							
								Real estate and other					
					Guarantees	Cash	Securities	Real estate commercial	Real estate residential				
Financial assets within scope of IFRS9 ECL													
Cash and Balances at banks	18,419	-	18,419	-	-	-	-	-	-	-	-	18,419	-
Loans - amortised cost:													
Retail	370,322	313	370,009	2,333	-	-	-	-	-	-	-	370,322	2,333
Wholesale	233,378	1,344	232,034	3,446	53,478	1,729	-	62,831	3,632	121,669	2,535	111,709	911
Total Financial assets	622,119	1,657	620,462	5,779	53,478	1,729	-	62,831	3,632	121,669	2,535	500,449	3,244
Contingent Liabilities and commitments within scope of IFRS9 impairments													
Retail	42,499		42,499	-	-	-	-	-	-	-	-	42,499	-
Facilities with banks													
Wholesale	53,630	-	53,630	-	11,311	1,096	-	143	28	12,578	-	41,052	-
Total off balance sheet	96,129	-	96,129	-	11,311	1,096	-	143	28	12,578	-	83,551	-
Total within scope of IFRS9 impairments	718,248	1,657	716,591	5,779	64,789	2,825	-	62,974	3,660	134,248	2,535	584,000	3,244

15. Risk management (continued)

Credit risk asset quality

The asset quality analysis presented below is based on the Company's internal asset quality ratings which have ranges for the probability of default, as set out below. Customers are assigned credit grades, based on various credit grading models that reflect the key drivers of default for the customer type. All credit grades across the Company map to both an asset quality scale, used for external financial reporting, and a master grading scale for wholesale exposures used for internal management reporting across portfolios.

The table that follows details the relationship between asset quality (AQ) bands and external ratings published by Standard & Poor's (S&P), for illustrative purposes only. This relationship is established by observing S&P's default study statistics, notably the one year default rates for each S&P rating grade. A degree of judgement is required to relate the probability of default ranges associated with the master grading scale to these default rates given that, for example the S&P published default rates do not increase uniformly by grade and the historical default rate is nil for the highest rating categories.

Internal asset quality band	Minimum %	Maximum %	Indicative S&P rating
AQ1	0.000	0.034	AAA to AA
AQ2	0.034	0.048	AA-
AQ3	0.048	0.095	A+ to A
AQ4	0.095	0.381	BBB+ to BBB-
AQ5	0.381	1.076	BB+ to BB
AQ6	1.076	2.153	BB- to B+
AQ7	2.153	6.089	B+ to B
AQ8	6.089	17.222	B- to CCC+
AQ9	17.222	100.000	CCC to C
AQ10	100.000	100.000	D

The mapping to the S&P ratings is used by the Company as one of several benchmarks for its wholesale portfolios, depending on customer type and the purpose of the benchmark. The mapping is based on all issuer types rated by S&P. It should therefore be considered illustrative and does not, for instance, indicate that exposures reported against S&P ratings either have been or would be assigned those ratings if assessed by S&P. In addition, the relationship is not relevant for retail portfolios, smaller corporate exposures or specialist corporate segments given that S&P does not typically assign ratings to such entities.

15. Risk management (continued)

Credit risk asset quality (continued)

Portfolio summary - sector analysis

The table below summarises financial assets and off-balance sheet exposures gross of ECL, related ECL provisions, impairment and past due by sector and asset quality.

31 December 2018	Retail £'000	Wholesale £'000	Total £'000
Loans and advances by geography			
- UK	370,009	230,907	600,916
- RoI	-	-	-
- Other Europe	-	535	535
- RoW	-	592	592
Loans and advances by asset quality			
- AQ 1 - 4	-	173,504	173,504
- AQ 5 - 8	366,216	53,196	419,412
- AQ 9	-	505	505
- AQ 10	3,793	4,829	8,622
Loans and advances by stage			
- Stage 1	364,246	224,090	588,336
- Stage 2	3,430	4,498	7,928
- Stage 3	2,333	3,446	5,779
Loans and advances - past due analysis			
- Not past due	363,500	227,596	591,096
- Past due 1-29 days	2,240	891	3,131
- Past due 30-89 days	1,035	335	1,370
- Past due 90-180 days	2,001	123	2,124
- Past due > 180 days	1,233	3,089	4,322
Stage 2			
- Not past due	714	4,076	4,790
- Past due 1-29 days	2,121	330	2,451
- Past due 30 - 89 days	595	92	687
- Past due 90 - 180 days	-	-	-
- Past due > 180 days	-	-	-
ECL provision by stage (total)			
- Stage 1	131	14	145
- Stage 2	55	53	108
- Stage 3	127	1,277	1,404
ECL Provision coverage (total) - ECL/loans			
- Stage 1	0.04%	0.01%	0.02%
- Stage 2	1.60%	1.18%	1.36%
- Stage 3	5.44%	37.06%	24.29%
ECL charge (total)			
- UK	-	920	920
- RoI	-	-	-
- Other Europe	-	-	-
- RoW	-	-	-
- i/G	-	-	-
ECL loss rate (total ECL on loans)	0.00%	0.40%	0.15%
Amounts written off (total)	194	27	221
Off balance sheet			
Loan commitments	42,499	53,630	96,129
Financial guarantees	-	-	-
Off balance sheet by asset quality			
- AQ 1 - 4	538	41,009	41,547
- AQ 5 - 8	41,935	12,611	54,546
- AQ 9	15	10	25
- AQ 10	11	-	11

15. Risk management (continued)

Credit risk asset quality (continued)

2017	Cash and balances at banks £'000	Derivatives £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Commitments £'000
AQ 1	18,265	841	993,522	236,501	37,237
AQ 2	-	-	-	-	-
AQ 3	-	-	278	-	500
AQ 4	-	-	736	7,599	2,652
AQ 5	-	-	-	14,210	5,791
AQ 6	-	-	-	312,256	46,946
AQ 7	-	-	-	14,508	3,424
AQ 8	-	-	-	4,510	456
AQ 9	-	-	51	53	121
AQ 10	-	-	-	3,351	-
Accruing past due	-	-	-	4,638	-
Impaired loans	-	-	-	2,539	-
Less impairment provision	-	-	-	(987)	-
Total	18,265	841	994,587	599,178	97,127

Capital risk

The Company manages its capital to ensure that branches will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of equity attributable to equity holders of the ultimate parent, comprising issued capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity.

The Company has capital adequacy requirements imposed by the Isle of Man – Financial Services Authority. The Company is required to report its risk asset ratio to the lead regulator on a periodic basis. The ratio is calculated as being the percentage of capital to assets, based on the regulators' definitions of capital and assets. This risk asset ratio is required at all times to be above a benchmark percentage provided by the regulator. The Company has been in compliance with capital adequacy requirements in respect of the years ending 31 December 2018 and 2017.

ALCO reviews the capital structure of the Company on a quarterly basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital, along with considering compliance of regulatory requirements. Based on recommendations of the committee, the Company will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people, systems or from external events. The Company's business units manage this risk through appropriate risk controls and loss mitigation actions. These actions include a balance of policies, procedures, internal controls and business continuity arrangements.

Pension risk

Pension risk is the risk to the Company arising from its contractual or other liabilities to, or with respect to, its pension schemes, whether established for its employees, for those of a related company or otherwise.

The Company is exposed pension through to risk from its defined benefit pensions schemes to the extent that the assets of the schemes do not fully match the timing and amount of the schemes' liabilities. Pension scheme liabilities vary with changes to long-term interest rates, inflation, pensionable salaries and the longevity of scheme members as well as changes in legislation. Ultimate responsibility for the Company's pension schemes is separate from the Company's management. The Company is exposed to the risk that the market value of the schemes' assets, together with future returns and any additional future contributions could be considered insufficient to meet the liabilities as they fall due. In such circumstances, the Company could be obliged, or may choose, to make additional contributions to the schemes or be required to hold additional capital to mitigate such risk.

The Company has exposure to pension risk of two defined benefit pension schemes: the Isle of Man Bank Pension Fund (IOMBPF), the Isle of Man Bank Widows' and Orphans' Fund (IOMBWOF).

The pension schemes' risk appetite and investment policy are agreed by the trustees with quantitative and qualitative input from the scheme actuaries and investment advisers. The trustees also consult with the Group to obtain its view on the appropriate level of risk within the pension funds.

The trustee boards are solely responsible for the investment of the schemes' assets which are held separately from the assets of the Company. The Company and the trustee board discuss and agree on the investment principles and the funding plan. The schemes are invested in diversified portfolios of equity, government and corporate fixed-interest and index-linked bonds.

15. Risk management (continued)

Pension risk (continued)

The funding valuation of the Isle of Man Bank Pension Fund (IOMBPF) at 31 December 2015 was finalised during 2018 with no requirement for the payment of deficit contributions, and work is expected to be carried out throughout 2019 on the funding valuation due at 31 December 2018.

16. Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2018. Although the Company is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of the Company's expectation of future losses.

	2018 £'000	2017 £'000
Contingent liabilities:		
Guarantees	-	1,156
Other contingent liabilities	-	1,121
Total contingent liabilities	-	2,277
Commitments:		
Undrawn formal standby facilities, credit lines and other commitments to lend	96,129	97,127

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. The Company's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table. These commitments and contingent obligations are subject to the Company's normal credit approval processes.

Contingent liabilities

These include standby letters of credit, supporting customer debt issues, contingent liabilities relating to customer trading activities such as those arising from performance and customs bonds, warranties and indemnities and obligations to The Royal Bank of Scotland plc.

Commitments

Commitments to lend – under a loan commitment the Company agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived. Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

Commitments under non-cancellable operating leases are detailed in note 14.

Litigation

The Company is involved in litigation involving claims by and against it which arise in the ordinary course of business. The directors of the Company, after reviewing the claims pending and threatened against the Company, and taking into account the advice of relevant legal advisers, are satisfied that the outcome of these claims are unlikely to have a material adverse effect on the net assets of the Company.

17. Net cash inflow from operating activities

	2018 £'000	2017 £'000
Net cash inflows from trading activities	9,077	12,478
(Increase)/decrease in derivatives	(458)	2,607
Increase in loans to banks and customers	(2,685)	(1,393)
Decrease/(increase) in amounts due from holding companies and fellow subsidiaries	24,918	(1,642)
Decrease/(increase) in other assets	6,050	(1,842)
Changes in operating assets	27,825	(2,270)
Increase in bank and customers deposits	41,069	155,456
Decrease in derivatives	(1,794)	(4,271)
Increase/(decrease) in amounts due to holding companies and fellow subsidiaries	12,956	(642)
Decrease in other liabilities	(4,043)	(3,946)
Changes in operating liabilities	48,188	146,597
Taxes paid	(903)	(482)
Net cash inflow from operating activities	84,187	156,323

18. Analysis of cash and cash equivalents

	2018 £'000	2017 £'000
At 1 January		
Cash and balances at banks	989,182	838,643
Net cash flow	83,891	153,534
Effect of exchange rate changes on cash and cash equivalents	3,206	(2,995)
At 31 December	1,076,279	989,182
Comprising:		
Cash and balances at banks	18,419	18,265
Loans to banks and Amount due from holding companies and fellow subsidiaries	1,057,860	970,917
	1,076,279	989,182

19. Other cash flow information

	2018 £'000	2017 £'000
Interest received	28,194	23,710
Interest paid	(8,983)	(7,426)
	19,211	16,284

20. Related parties

The Company's immediate parent company is The Royal Bank of Scotland International (Holdings) Limited.

The Company's ultimate holding company, and the parent of the largest group into which the Company is consolidated into is The Royal Bank of Scotland Group plc.

UK Government

On 31 December 2018, the UK Government through HM Treasury is the ultimate controlling party of The Royal Bank of Scotland Group plc. Its shareholding is managed by UK Financial Investments Limited, a company it wholly-owns and as a result, the UK Government and UK Government controlled bodies are related parties of the Company.

(a) Related party transactions

	2018 £'000	2017 £'000
Assets		
Loans to banks:		
RBS Group entities	1,055,547	992,446
Liabilities		
Bank deposits:		
RBS Group entities	46,628	32,960
Income		
Interest received:		
RBS Group entities	7,696	4,161
Total income	7,696	4,161
Expenses		
Interest paid:		
RBS Group entities	5,443	5,273
Management recharge from RBS International Limited	6,577	6,411
Total expenses	12,020	11,684

(b) Compensation of key management

The aggregate remuneration of directors and other members of key management during the year was as follows:

	2018 £'000	2017 £'000
Short term benefits	186	99
Post employment benefits	-	-
Long term benefits	21	3
	207	102

21. Adoption of IFRS 9

The Company accounting policies have significantly changed on the adoption of IFRS 9 'Financial Instruments: Classification and measurement with effect from 1 January 2018. Prior years are re-presented but there has been no restatement of prior year data.

IFRS 9 changed the classification categories of financial assets from IAS 39. Held-for-trading assets were classified to mandatory fair value through profit or loss; loans and receivables were classified to amortised cost.

There were no changes in the classification and measurement of financial liabilities.

The day 1 net decrease to loan impairments from IAS 39 to IFRS 9 was £14 thousand under the expected credit loss requirements.

The impact on the Company's balance sheet at 1 January 2018 and the key movements in relation to the impact on classification and measurement are as follows:

	Changes to presentation			IFRS 9 impact				
	31 December 2017 (IAS 39)	New presentation	31 December 2017 re-presented	Classification & Measurement	Expected credit losses	Tax	1 January 2018 (IFRS 9)	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Cash and balances at banks	18,265	—	18,265	—	—	—	18,265	Cash and balances at banks
Derivatives	841	—	841	—	—	—	841	Derivatives
Loans and advances to banks	994,587	(993,522)	1,065	—	—	—	1,065	Loans to banks - amortised cost
Loans and advances to customers	599,178	—	599,178	—	57	—	599,235	Loans to customers - amortised cost
Amounts due from holding companies and fellow subsidiaries	—	993,522	993,522	—	(43)	—	993,479	Amounts due from holding companies and fellow subsidiaries
Other assets	17,621	—	17,621	—	—	—	17,621	Other assets
Total assets	1,630,492	—	1,630,492	—	14	—	1,630,506	Total assets
Deposits by banks	33,672	(33,672)	—	—	—	—	—	Bank deposits
Customer accounts	1,498,417	—	1,498,417	—	—	—	1,498,417	Customer deposits
Derivatives	14,513	—	14,513	—	—	—	14,513	Derivatives
Amounts due to holding companies and fellow subsidiaries	—	33,672	33,672	—	—	—	33,672	Amounts due to holding companies and fellow subsidiaries
Other liabilities	7,051	—	7,051	—	—	—	7,051	Other liabilities
Total liabilities	1,553,653	—	1,553,653	—	—	—	1,553,653	Total liabilities
Total equity	76,839	—	76,839	—	14	—	76,853	Total equity
Total liabilities and equity	1,630,492	—	1,630,492	—	14	—	1,630,506	Total liabilities and equity

The table below reflects the impact of IFRS 9 on total equity

	Total
	£'000
At 31 December - under IAS 39	76,839
Expected credit losses	14
At 1 January 2018 - under IFRS on transition to IFRS 9	76,853

22. Depositors' Compensation Scheme

The Company is required to participate in the Isle of Man Depositors' Compensation Scheme (the "Scheme"), as set out in the Compensation of Depositors Regulations 2008 (as amended).

On 8 October 2008, the Board of Kaupthing, Singer & Friedlander (Isle of Man) Limited declared that it was unable to pay its debts. At a hearing in the Isle of Man High Court on 27 May 2009, a winding up order was made placing the Company into liquidation.

During the course of 2009 pursuant to Regulation 14(l)(a) of the Scheme, the Scheme Manager (as defined by Regulation 5(l)) gave the requisite notice to levy an amount on the Company. The initial levy was £350 thousand and was paid in 2009 and recorded as an expense in the Income Statement.

A provision of £700k was also made in 2009 to cover the future estimated cost to the Company of levies made by the Scheme Manager in future years. In both 2010 and 2011 the Company made further £350 thousand annual contributions to the Scheme which was offset against the £700 thousand provision made in 2009. To the best of their knowledge from publicly available information, the Directors believe that there is no further liability to the Scheme at this time.

During 2018, the Depositors' Compensation Scheme Manager issued the Company with an interim distribution of nil (2017: nil).