R. Raphael & Sons plc

Annual report and financial statements

For the year ended 29 February 2016

Company number 01288938

Contents

Strategic report

R. Raphael & Sons plc ('Bank' or 'Company') is a company incorporated and domiciled in the UK. The Bank's registered office is at 19-21 Shaftesbury Avenue, London, W1D 7ED. Its immediate parent is Lenlyn Holdings Limited (together with its subsidiaries, the 'Lenlyn Group'), which is incorporated in the UK.

The Directors present the Strategic report of the Bank in accordance with Companies Act 2006, section 414C.

Overview

The Bank is a UK Credit Institution authorised by the Prudential Regulation Authority ('PRA') (reference 161302), regulated by the Financial Conduct Authority ('FCA') and the PRA, and is engaged in the business of banking and related financial services. This principally includes the issuance of prepaid, credit and debit cards in the UK and Europe, the provision of lending in the form of loans and hire purchase facilities, ATM machines at high street and major gateway destinations primarily in the UK, as well as offering savings products to UK based personal customers. For some of the card programmes in Europe, the Bank is also subject to host state regulations. The Bank is a principal member of MasterCard, Visa and the LINK network.

Sale of the Bank

As part of their divestment plans, the Bank's shareholder, Lenlyn Holdings Limited, has decided to sell its holding in the Bank and during the year management has been working with the shareholder and professional advisors to identify prospective buyers. At the point of approving these financial statements, negotiations with prospective purchasers are continuing. It is currently expected that a sale will be completed later in 2016. As a result of this process, the Bank is in the process of developing new plans and strategies.

Business Review

Significant events in the year

Following the announcement of the takeover of Visa Europe Limited ('Visa Europe') by Visa Inc., the Bank has been able to establish a fair market value for its interest in Visa Europe. Historically this has been carried in the balance sheet under UK GAAP at £0.1m, being its cost less provision for impairment. As a result of the announcement, the Bank increased its valuation of the investment to £19.2m in November 2015 when the deal was announced, and further to £22.1m at the year-end, resulting in an increase in regulatory capital of £4.2m. Further details of the year-end valuation are given in Note 26.2. On 22 April 2016, following management's assessment of the year-end valuation, Visa Inc. made a further announcement regarding the terms of the agreement. As a result of this announcement, the potential amounts due to the Bank are estimated at a cash payment of €21.3m when the deal completes, a deferred payment of €1.9m after three years, with the possibility of a further €13.7m of preferred shares in Visa Inc. allocated over 12 years. In the case of the deferred payment and shares, the actual amounts will vary depending on many factors in the intervening period.

In November 2015, the PRA fined the Bank £1.3 million for failure to properly manage an outsourced relationship with another part of Lenlyn Group relating to the ATM division. Full details of the fine and the circumstances are available on the PRA's website. Whilst neither the Bank nor any of its customers suffered any losses as a result of this matter, the Bank accepted the findings contained in the PRA's Final Notice regarding certain failures to meet the relevant regulatory standards during the period in question and settled the fine with the PRA. Many changes were made to the Bank's operations after the discovery of the matter by the Bank in early 2014, including bringing in-house all of its finance, IT, HR, marketing and support functions and the ATM operations team.

Payment Services

The Bank works through a number of partners (Programme Managers) in bringing niche payment solutions to the European market. The Programme Manager typically markets the product, determines the customer proposition and services the customer base, whilst the Bank: uses its scheme memberships to issue the cards; provides regulatory oversight; holds cardholder funds; and settles and reconciles scheme payments. Payments processing is typically outsourced to a specialist provider. The Bank has maintained its position at the forefront of the UK prepaid card industry with over 5.3m (2015: 5.0m) prepaid cards now in issue in the UK and across a number of other European countries. This excludes a large number of virtual one-time use credit cards that are issued automatically as part of a B2B proposition with one of the Bank's partners. The growth seen over the year has come from both existing partners and new relationships. Total customer balances have decreased by 2% in this past financial year (2015: 19% increase). However, average monthly transaction volumes have increased by 96%, to average over £450m (2015: £230m) in monthly settlements, a reflection of the on-going increase in one-time use card transactions.

Prepaid card balances are held either in the form of demand deposits with major banks, in government or supranational securities, or in money market funds. A large proportion of cardholder liabilities are denominated in currencies other than sterling, for which the equivalent bank balance or investment is held in the same currency to ensure a matched position. At 29 February the Bank had live cards in issue with 21 partners (2015: 20). The Bank expects to achieve further growth within the division in the coming years, including from broadening its sponsored product range to include Faster Payments as well as Visa and MasterCard.

Lending

The Lending division operates two models. The first is underwriting and servicing loans introduced (mostly) by intermediary brokers while the second involves working through third party companies that originate and service loans in various niche markets. In the first model, the Bank remains active in the provision of hire purchase facilities for motor vehicles, together with the more niche markets of mobility scooters and wheelchair adapted vehicles. During the year the division has continued the expansion of this business into SME asset finance. Although this represents only 9.6% of direct business written (2015: 1.8%), management believes that it is a market that offers considerable growth potential. In the second model, the Bank has been working with five partners (2015: three partners). Of these, one operates in a variety of retail markets including sport season ticket loans, student support loans, medical loans and similar niches; another focuses on professional firms' short-term funding; another on personal loans to its client base; and the last on vehicle finance. The relationship with a fifth partner, in which the Bank purchased tranches of credit card receivables, ended amicably during the year with the Bank's book fully repaid. In each of these cases, the loans are administered by the respective partner and the Bank has arrangements in place whereby the partner will repurchase balances in arrears. The division achieved a very good level of profitability for the year and the Directors anticipate that this will be maintained over the coming year supported by ongoing growth in its direct business (where it is continuing to expand cautiously the range of customers served) and through further expansion via new partners into niche sectors of the finance market.

Banking

The division's main activity is to offer a range of savings and deposit products to the retail market in support of the lending activity within the Bank (i.e. deposits are raised to match lending requirements rather than as a broader customer acquisition tool). The Bank continues to be successful in growing the deposit base in accordance with planned liquidity targets and increased its peak deposit balance during the year to £128m from £101m in the previous fiscal year. The majority (95% at February 2016, 91% at February 2015) of the Bank's deposits are fixed rate fixed term products with original tenors between 6 months and 5 years, with the remainder made up of 60 day, 6 month and 12 month notice accounts.

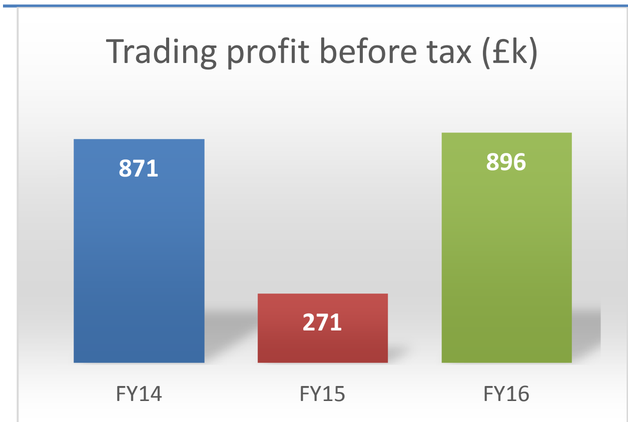
ATMs – Discontinued operation

The ATM division operates in conjunction with a number of third party site owners, including other members of the Lenlyn Group. The division has broadly maintained the size of its estate with 329 machines at 29 February 2016 (2015: 350). The division remains profitable and continues to operate ATMs in the UK, Jersey, Republic of Ireland and Gibraltar. As the result of a strategic review, the Bank determined that it wishes to exit the ATM business where it has been highly dependent on the contracts with the Lenlyn Group for profitability and considers the ATM network does not form a core part of the Bank's other customer propositions. Conversely, ATMs are a key part of the business of the Bank's sister company, International Currency Exchange Limited ('ICE') and accordingly the Bank signed an agreement on 1 April 2016 to sell its ATM business to a subsidiary of ICE. The sale is expected to complete within 2016. The Bank does not anticipate making a material profit or loss on this arrangement.

Key Performance Indicators

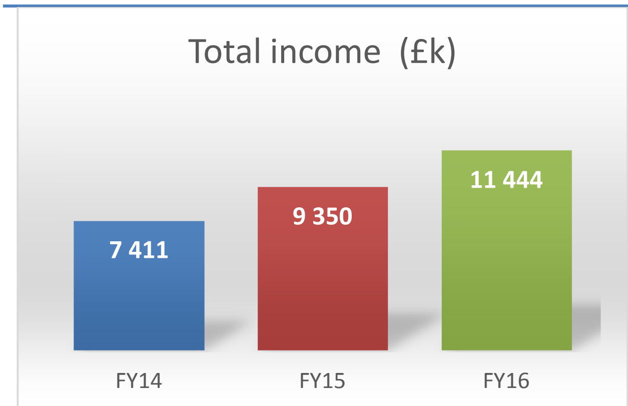
A summary of key performance indicators used to manage the business is set out in the tables that follow:

In order to ensure a level of consistency across each year, the figures exclude the discontinued businesses and the costs associated with the Regulatory fine in the current financial year. FY14 numbers have not been restated for the effect of IFRS. All amounts are in £ thousands unless otherwise stated.



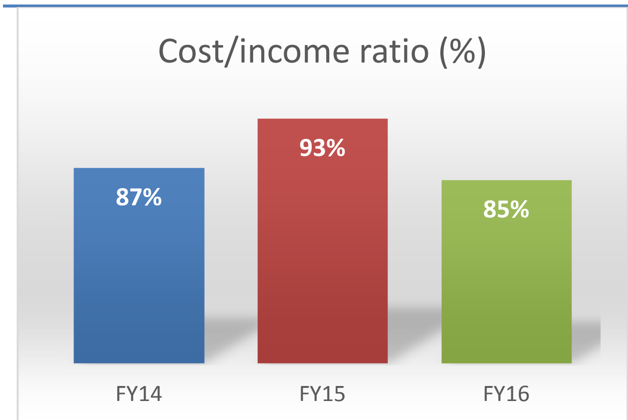
Definition: Continuing operations' loss before taxation (£805k), adjusted for regulatory charge and associated costs (£1,701).

The Board sees the total profitability of the Bank as an important measure in its performance. The profit improvement in the year was driven by the growth in the Lending and Payment Services divisions.



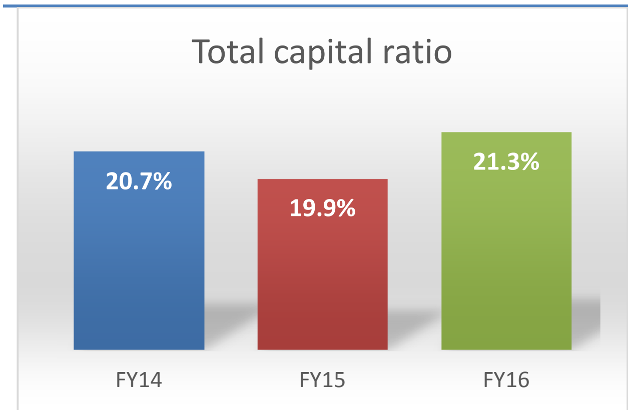
Definition: Total income from continuing operations

Total income combines the gross earnings from each of the Bank's operating divisions. The growth in income was driven by the increase in interest income from the Lending division and fee earnings from the Payment Services division.



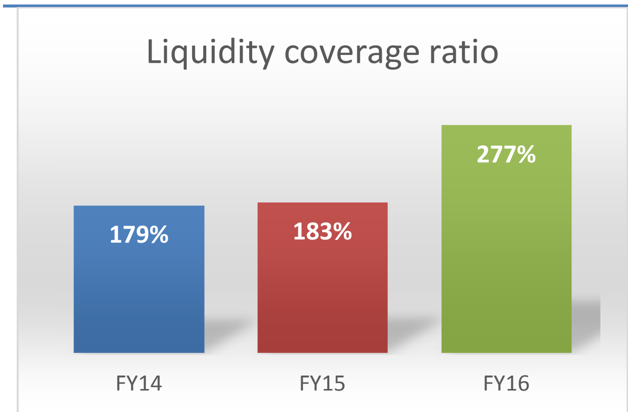
Definition: Total operating expenses divided by total income (continuing operations)

The Board aims to ensure that costs are contained at an appropriate level. The current cost/income ratio remains high, in large part because of the level of investment in staff and systems seen in the past few years.



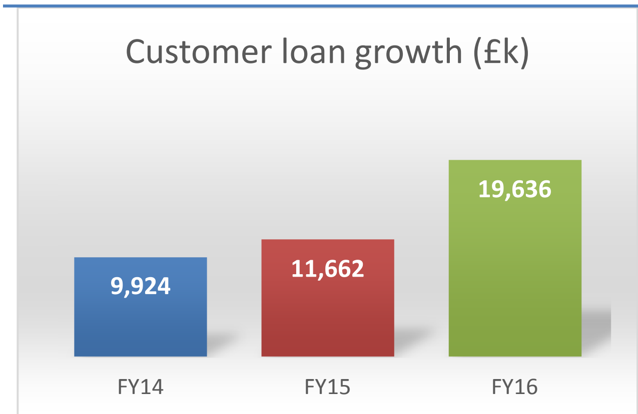
Definition: Total risk weighted assets divided by total regulatory capital

The Board recognises the need to ensure that capital levels are sufficient to meet regulatory requirements and to allow business growth. The increase in the current financial year arises from the revaluation of the Bank's investment in Visa Europe.



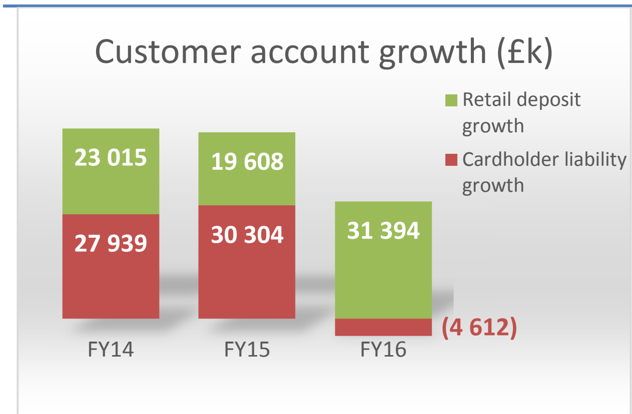
Definition: Total high quality liquid assets divided by net outflows projected over the next 30 days, calculated in accordance with the CRR

The Board acknowledges the need to hold sufficient liquidity to meet its obligations. The LCR has been introduced by Regulators in the CRR, with a minimum level applicable to all banks of 100%. The nature of the Bank's business model, in particular the Payment Services division, where cardholder liabilities are principally held in short-term instruments leads to a high ratio. The higher ratio in FY16 is due to increases in holdings of high quality securities.



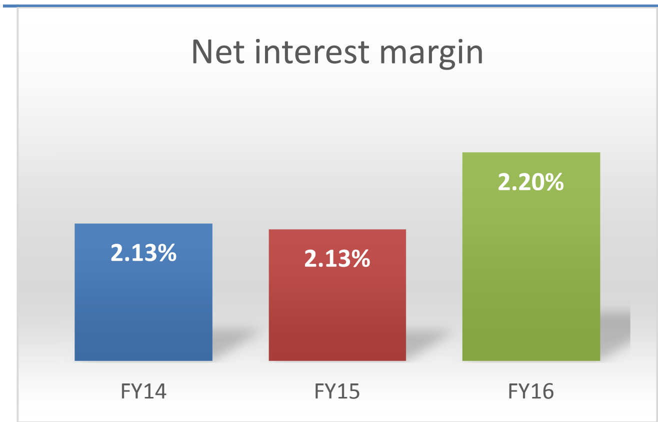
Definition: Total increase in loans and advances to customers and hire purchase agreements, excluding book purchase

A key part of the Bank's business is the value of lending, with growth this year of £19.6m. The main driver behind this is the organic growth of advances in the motor finance category.



Definition: Total increase in customer accounts.

The growth in the Bank's lending business is dependent on retail deposits. These deposits have grown by £31.4m. There was a small reduction in cardholder balances of £4.6m although the total value of transactions saw an increase.



Definition: Net interest receivable divided by mean total assets.

The Bank's lending business generates interest earnings, funded by the cost of retail deposits. Therefore, it is important to measure the interest margin. The improvement in the interest margin is due to the growth in interest earning assets within the lending division.

Risk Management Objectives and Policies

The Bank operates in an environment that exposes it to a wide range of risks. To mitigate these risks, the Board has continued to develop and refine its Enterprise Risk Management Framework ('ERMF') over the past year to identify the types and quantum of risks to which the Bank is prepared to be exposed and how those risks are to be mitigated and managed.

Some of the key elements of the Bank's ERMF are:

- The use of risk appetite and tolerance statements throughout the business;
- The use of risk registers to identify key risks and ensure they are actively monitored and managed;
- The maintenance of up to date policies and procedures, including fully tested business continuity plans; and
- The delegation to various committees of the oversight of how well the Bank manages risk. The main committees in this respect are the Audit & Risk Committee, the Executive Committee ('EXCO'), and the Asset & Liability Committee ('ALCO').

Ultimate responsibility for the overall framework and the risk management strategy continues to reside with the Board and all aspects of the ERMF are reviewed, amended where appropriate and approved at least annually by the Board to ensure they remain in line with best practice and are consistent with the Bank's overall strategic objectives.

Principal Risks

The principal risks to which the Bank is exposed and an outline of the principal means by which those risks are managed are set out below:

Credit risk: the risk that a loss will be incurred if a customer or counterparty fails to meet its obligations. Credit risk arises principally in three areas:

- Within the Bank's Lending division through the provision of hire purchase facilities and loans originated through partner relationships (as described above);
- Through the Payment Services division's investment of cardholder balances with counterparty banks and money market funds and in short-term government or quasi-governmental securities;
- Finally in respect of amounts due to the Bank in the settlement of ATM disbursements.

As referred to above, in the case of Lending division partner relationships, an important mitigant of the credit risk is the fact that the Bank has an arrangement whereby the partner will buy back outstanding balances of a certain delinquency (as defined in each contract). This has the effect of transferring the credit risk associated with individual advances to the relevant partner but it does in turn create credit risk for the Bank on that partner. In this context it is important to note that in the event of a failure of a partner, the Bank has contingency plans in place under which it would take over administration of the loans. The underlying loan documentation provides for the Bank to have direct right of recourse to each borrower and all cash flows associated with individual loans are routed through and under the control of the Bank. The Lending division also includes hire purchase facilities where the underlying assets serve as collateral and risk mitigant against the loan exposures.

Institutions and all Sovereigns must have a short term prime rating from one or more of the rating agencies. Limits are placed on the amount of risk accepted in relation to one counterparty or group of counterparties. The ALCO reviews counterparty limits quarterly and recommends changes to such limits as necessary based on ratings assigned by the major Credit Rating Agencies and any other market intelligence available. Other unrated counterparties may be added if specific approval is granted by the ALCO. No transactions can be undertaken with counterparties which do not have a pre-approved limit. The maximum exposure to any individual counterparty or connected group of counterparties is limited to the Bank's total regulatory capital.

Operational risk: the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events arising from day-to-day operating activities. The Bank seeks to mitigate this risk through a variety of measures including maintaining up-to-date policies and procedures for all key internal processes, ensuring its staff receive ongoing training, investing in appropriate systems, having documented and tested business continuity plans and, wherever possible, ensuring that it has a diversified spread of counterparties, business partners and suppliers. A key aspect of operational risk is the Bank's use of outsource service providers. Each of the Bank's operating divisions and support functions have processes and procedures by which they monitor and review outsourced third parties' activity and performance. The adequacy of these processes and procedures is regularly reviewed by the Bank's compliance, risk and internal audit functions. The EXCO is the Bank's principal forum for monitoring operational risk which it does through a variety of means including the use of risk registers, operational loss databases, control self-assessments as well as regular reviews of operational divisions and functional areas by compliance and internal audit.

Conduct risk: The Bank defines conduct risk as "the risk that, through the Bank's actions or inactions, one or more of its products and services fail to deliver fair outcomes to its customers''. The conduct risk governance framework mirrors other aspects of the Bank's ERMF and is actively managed at all levels within the Bank through training, the establishment of risk appetite and tolerances and the use of appropriate Key Risk Indicators and other management information.

Liquidity risk: the risk that the Bank either does not have available cash or cannot obtain sufficient financial resources to enable it to meet its obligations as they fall due, or only secure such resources at an excessive cost. The Bank's policy is to maintain liquid assets at all times which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due both in business-as-usual and stressed scenarios. The liquidity policy details liquidity risk limits set by the Board and day-to-day responsibility for ensuring these are adhered to rests with the ALCO. The Bank completes an Individual Liquidity Adequacy Assessment Process ('ILAAP') at least annually to assess its compliance with the liquidity systems and controls requirements as detailed in the PRA Rulebook.

Interest rate risk: the risk of reductions in income arising from unfavourable movements in interest rates and/or reductions in the fair value of financial instruments. This risk is managed within approved limits set by the Board and is monitored by the ALCO. Details of the Bank's interest rate sensitivity are set out in Note 32 of these financial statements.

Foreign exchange risk: the risk of loss arising from unfavourable movements in currency exchange rates. Traditionally the principal area of the Bank's business where foreign exchange risk arises is within the ATM division, where Euro and US Dollar notes are held in ATMs prior to them being dispensed. Additionally the Bank is exposed to foreign exchange risk when ATM transactions are settled in a differing currency to the original transaction. These risks are managed within approved limits set by the Board and are monitored by the ALCO. In its fiscal year 2016, the Bank suffered an overall net loss of £0.2m (2015: £0.4m) in the profit and loss arising from (principally) movements in the £:€ exchange rate impacting the value of its ATM notes. During the year, the Bank took out an fx option as a commercial hedge against further declines in the Euro value. In the current year the

Bank has also been exposed to significant foreign exchange risk on its Visa Europe shareholding, which is denominated in Euro. An unrealised fx gain of £2.3m has been recognised on these shares in other comprehensive income. While a large proportion (77%) of payment services cardholder liabilities are in currencies other than sterling, the equivalent bank balance or investment is held in the same currency to ensure a matched position and to mitigate any foreign exchange risk. Details of the Bank's net foreign currency assets and liabilities are set out in Note 32 of these financial statements.

Regulatory risk: the risk that the Bank does not adhere to the changing regulatory environment in which it operates thereby threatening the achievement of the firm's goals and objectives, possibly damaging its reputation and giving rise to it being censured or fined by a regulator. The Bank seeks to mitigate such risks by ensuring there is a suitable level of expertise within each of its operating divisions which is then supported by a strong central compliance team and the use of risk-based compliance monitoring plans to monitor and ensure the Bank's ongoing adherence to relevant laws and regulations. Finally and reflecting the three lines of governance model employed by the Bank, at least annually, internal audit also undertakes a review of the Bank's overall management of regulatory risk.

Principal Uncertainties Facing the Bank

As mentioned above, the Bank is in discussions with its prospective new owners about the future plans and strategies of the Bank, which may lead to growth or contraction of some of the Bank's existing products, together with potential expansion into new lines of business.

The regulatory environment within the UK and the EU remains challenging, with regulators' interpretations of statute varying between countries and a culture of interventionist regulatory activity. Combined with a stream of new regulations impacting the Bank's business, the ability to launch innovative products and services will continue to be heavily dependent on the need to interpret the implementation of existing regulations and anticipate future developments. The Bank has invested heavily in the past 12 months in expanding its legal, regulatory, compliance and risk functions, which in itself is a challenge to profitability, but nevertheless a requirement in the environment described, and the Bank anticipates further such investments in 2016 and beyond.

The level of UK interest rates has a mixed impact on the Bank's business. Returns from the Payment Services division have been depressed by low rates earned on cardholder funds, whilst low funding costs in the Lending division have helped its profitability. Overall the Directors consider that the Bank is well positioned to deal with any sudden interest rate movements and, given that any such movement is likely to be upwards, believe that the net effect on the Bank should be beneficial.

The level of interest rates in the EU (as with UK interest rates) has depressed earnings within the Payment Services division now for several years. The Bank is currently earning (paying) negative returns on some euro deposits held with European banks and government securities. Whilst not a threat to the business, this phenomenon continues to depress the Bank's and its partners' interest in developing card and payment programmes which entail holding large amounts of euro currency. Such negative interest costs generally cannot be passed on to end customers and thus result in unattractive returns on such products. This will be exacerbated by any further deterioration in rates and/or expectation that negative rates will continue for an extended period.

The majority of the Bank's current business is UK based, although a total of £0.6m (2015: £0.7m) of gross income came from card programmes in other EU countries. As such, the possibility of the UK exiting the EU is a threat to the Bank in terms of these amounts and also its future business opportunities. The Bank's ability to continue these businesses may or may not be impacted by such an exit, depending on the terms of any ongoing arrangements between the UK and the EU in respect of existing passporting activity.

The future strength of the UK economy, particularly in the context of an uncertain global economy, is also considered as a principal uncertainty. This is most likely to impact the Bank through a decrease in employment levels and/or personal economic hardship leading to increased impairment levels in the Bank's direct lending business and/or to the failure of a lending partner. It is management's belief that in most of its and its partners lending niches, a common feature is the historically low bad-debt rate. Sensitivity analysis prepared indicates that the Bank could withstand a significant deterioration in asset quality on these loans. Whilst the Bank continue to monitor economic impact and the quality of its book, the Directors are cautiously optimistic that, based on their understanding and the Bank's history, the Bank will be able to cope with this uncertainty.

Capital Adequacy

Implementation of the new Capital Requirements Directive ('CRD IV') took place initially on 1 January 2014. A number of the requirements of CRD IV are being phased in over the course of the next four years, although the Bank has implemented changes already where this is necessary. The CRD requires the Bank to assess the adequacy of its capital through an Internal Capital Adequacy Assessment Process (ICAAP). Through the application of the ICAAP the Board is satisfied that the Bank holds a level of capital more than sufficient to satisfy both CRD IV's minimum capital requirements under Pillar 1 and to cover those risks that the Board has identified under Pillar 2. The Pillar 3 disclosures required under CRD IV, and approved by the Board, will be made available on the Bank's website www.raphaelsbank.com.

By order of the Board

K S Penfold

Kerry Penfold
Company Secretary

8 June 2016

Directors' report

The Directors present their report together with the financial statements for the year ended 29 February 2016.

Information presented in other sections

Certain information required to be included in a Directors' report can be found in the other sections of the Annual report as described below. All of the information presented in these sections is incorporated by reference into this Directors' report and is deemed to form part of this report:

- Commentary on the Company's results for the year, assets and capital together with likely future developments in the business of the Company is included in the Strategic report;
- Commentary on the Company's principal risks and uncertainties is set out in the Strategic report;
- A description of the Company's financial risk management objectives and policies and its exposure to risks arising from its use of financial instruments are set out in Note 32 to the financial statements.

Principal activities

The Company is engaged in the business of banking and related financial services. This principally includes the issuance of prepaid cards in the UK and Europe, the provision of lending in the form of loans and hire purchase facilities, ATM machines at high street and major gateway destinations, as well as offering savings accounts to retail customers. The Bank is a principal member of Visa, MasterCard and the LINK network.

Post balance sheet events

Disposal of ATM business unit

As the result of a strategic review, the Bank determined that it wishes to exit the ATM business and accordingly the Bank signed an agreement on 1 April 2016 to sell its ATM business to a subsidiary of International Currency Exchange Limited. The sale is expected to complete in 2016 and the Bank does not anticipate making a material profit or loss on the transaction.

Going concern

In preparing the financial statements the Directors carried out an appropriate assessment of going concern to satisfy themselves that it is reasonable to adopt the going concern basis, taking into account all available information about the future and factors likely to affect its future development, performance, position, liquidity and capital structure. The Bank's forecasts and projections show that the Bank will be able to operate at adequate levels of both liquidity and capital for the foreseeable future. After making due enquiries the Directors are satisfied that the Bank has adequate resources to continue its business for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing the financial statements. Given the current Bank sale process, the Directors believe that the resources available to the Bank after completion will not have an impact on the going concern.

The activities of the Bank, its current operations and those factors likely to affect its future results and development, together with a description of its financial position, funding position and principal risks and uncertainties affecting the Bank are described in the Strategic report.

Results and dividends

The financial statements have been prepared for the first time in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board, and as adopted by the European Union. Until 28 February 2015 the Company prepared its annual financial statements under United Kingdom Generally Accepted Accounting Practice ('UK GAAP'). UK GAAP differs in certain respects from IFRS and consequently the Directors amended certain accounting and valuation methodologies to comply with IFRS. The reconciliations from UK GAAP to IFRS are presented in Note 34.

The profit for the year after taxation amounted to £440k (2015: £1,436k). The Directors have not paid an interim ordinary dividend (2015: £nil) and are not recommending a final dividend (2015: £nil).

Directors

The Directors who held office during the year or who hold office at the date of this report are as follows:

Anthea Frost	-	Non-executive Director
Trevor Johnson	-	Non-executive Director
Kerry Penfold	-	Appointed 18 March 2015
Tony Pooley		
John Quitter	-	Non-executive Director and Chairman
Miles Roberts		
Mike Smith		
John Tattersall	-	Non-executive Director and Chair, Audit and Risk Committee (Resigned 30 April 2016)
Richard Wells		

The Directors have no interests in any shares of the Company or in any other fellow subsidiary.

Directors' liability insurance

The Company maintained Directors' and Officers' liability insurance during the twelve months ended 29 February 2016.

Political donations

The Company did not make any political donations during the year (2015: £nil).

Auditors

KPMG LLP has indicated its willingness to continue as auditor of the Company. Accordingly, a resolution is to be proposed at the next annual general meeting for the re-appointment of KPMG LLP as auditor of the Company.

Statement of disclosure of information to auditors

The Directors confirm that:

- So far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The Directors have taken all the steps they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

By order of the Board

K J Penfold

Kerry Penfold
Company Secretary

8 June 2016

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and applicable law.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRS as adopted by the EU; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Independent auditor's report to the member of R. Raphael & Sons plc

We have audited the financial statements of R Raphael & Sons plc for the year ended 29 February 2016 set out on pages 14 to 65. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as adopted by the EU.

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' responsibilities set out on page 11, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the Company's affairs as at 29 February 2016 and of the profit for the year then ended;
- Have been properly prepared in accordance with IFRS as adopted by the EU; and
- Have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- We have not identified material misstatements in those reports; and
- In our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 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.

Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

8 June 2016

Income Statement

For the year ended 29 February 2016

	Note	2016	2015 Restated[1]
		£'000	£'000
Net interest income		**7,972**	6,692
Interest income	5	**10,149**	8,315
Interest expense	5	**(2,177)**	(1,623)
Non-interest revenue		**3,472**	2,658
Fee and commission income	6	**3,847**	3,149
Fee and commission expense	6	**(632)**	(441)
Other income/(loss)	7	**257**	(50)
Total operating income		**11,444**	9,350
Operating expenses	8	**(9,718)**	(8,722)
Regulatory charge and associated costs	9	**(1,701)**	-
Operating profit before impairment charges		**25**	628
Credit impairment charge	15.2	**(830)**	(357)
(Loss)/profit before taxation		**(805)**	271
Income tax charge	10.1	**(221)**	(127)
(Loss)/profit from continuing operations		**(1,026)**	144
Profit from discontinued operation	24	**1,466**	1,292
Profit attributable to equity shareholders		**440**	1,436

[1]The Income Statement and related Notes have been restated for the effect of transition to IFRS and the application of discontinued operations according to IFRS 5. Additional information is presented in Notes 24 and 34.

Statement of Other Comprehensive Income

For the year ended 29 February 2016

	Note	2016	2015
		£'000	£'000
Profit attributable to equity shareholders		**440**	1,436
Items that may subsequently be transferred to the income statement:			
Net change in fair value of available for sale investments		**22,054**	1
Related tax charge	10.3	**(4,283)**	-
Total comprehensive income attributable to the equity shareholders		**18,211**	1,437

The Notes on pages 18 to 65 are an integral part of these financial statements.

Balance Sheet

At 29 February 2016

	Note	2016 £'000	2015 Restated[1] £'000
Assets			
Cash and balances with central banks	11	**49,703**	50,014
Loans and advances to banks	12	**108,656**	133,074
Available for sale investments	13	**116,611**	78,342
Loans and advances to customers	14	**25,650**	24,476
Hire purchase agreement receivables	15	**62,435**	44,468
Derivative assets	16	**85**	73
Prepayments, accrued income and other debtors	17	**1,091**	10,201
Deferred tax asset	10.3	**-**	195
Property, plant and equipment	19	**997**	2,764
Intangible assets	20	**832**	717
Non current assets classified as held for sale	25	**12,847**	-
Total assets		**378,907**	344,324
Liabilities			
Customer deposits	21	**121,299**	89,905
Other customer accounts	22	**183,438**	188,050
Current tax liability		**358**	249
Deferred tax liability	10.3	**4,239**	-
Other liabilities	23	**27,211**	42,640
Liabilities classified as held for sale	25	**671**	-
Total liabilities		**337,216**	320,844
Equity			
Share capital	27	**13,600**	13,600
Share premium		**900**	900
Reserves		**27,191**	8,980
Total equity		**41,691**	23,480
Total liabilities and equity		**378,907**	344,324

[1]The Balance Sheet and related Notes have been restated for the effect of transition to IFRS. Additional information is presented in Note 34.

The Notes on pages 18 to 65 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 8 June 2016 and were signed on its behalf by:

Miles Roberts
Chief Executive Officer

Richard Wells
Chief Financial Officer

Company registration number: 01288938

Statement of Changes in Equity

For the year ended 29 February 2016

	Share capital £'000	Share premium £'000	Available for sale reserve £'000	Retained earnings £'000	Total equity £'000
Balance previously disclosed at 28 February 2014	13,600	900	-	7,669	22,169
Effect of transition to IFRS (note 34)	-	-	(8)	(118)	(126)
Balance as at 1 March 2014	13,600	900	(8)	7,551	22,043
Total comprehensive income for the year	-	-	1	1,436	1,437
Balance as at 28 February 2015	13,600	900	(7)	8,987	23,480
Balance as at 1 March 2015	**13,600**	**900**	**(7)**	**8,987**	**23,480**
Total comprehensive income for the year	**-**	**-**	**17,771**	**440**	**18,211**
Balance as at 29 February 2016	**13,600**	**900**	**17,764**	**9,427**	**41,691**

The Notes on pages 18 to 65 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 29 February 2016

	Note	2016 £'000	2015 Restated[1] £'000
Cash flows from operating activities			
Profit/(loss) before taxation		**1,029**	1,910
- Continuing operations		**(805)**	271
- Discontinued operation		**1,834**	1,639
Adjusted for:			
Amortisation of intangible assets		**253**	230
Depreciation of property, plant and equipment		**726**	700
Profit on disposal of property, plant and equipment		**(15)**	(1)
Credit impairment charges		**830**	357
Fair value gain on derivative instruments		**(12)**	(8)
Revaluation gain on freehold property		**(40)**	-
Unrealised foreign exchange (gain)/loss		**(210)**	150
		2,561	3,338
Changes in operating assets and liabilities		**(17,369)**	53,505
Net increase in income-earning assets	*28.1*	**(16,783)**	(12,150)
Net (decrease)/increase in funding and other liabilities	*28.2*	**(586)**	65,655
Tax paid	*28.3*	**(329)**	(299)
Net cash flows (used in)/from operating activities		**(15,137)**	56,544
Cash flows used in investing activities			
Acquisition of intangible assets		**(783)**	(247)
Acquisition of property, plant and equipment		**(572)**	(368)
Proceeds from the sale of property, plant and equipment		**17**	3
Net cash flows used in investing activities		**(1,338)**	(612)
Net cash flows (used in)/from operating and investing activities		**(16,475)**	55,932
Fair value (loss)/gain included in cash equivalents		**(20)**	1
Net (decrease)/increase in cash and cash equivalents		**(16,495)**	55,933
Cash and cash equivalents at beginning of the year		**261,202**	212,600
Effect of exchange rate fluctuations on cash and cash equivalents held		**12,631**	(7,331)
Cash and cash equivalents at end of the year	*28.4*	**257,338**	261,202

[1]The Statement of Cash Flows and related Notes have been restated for the effect of transition to IFRS. Additional information is presented in Note 34.

Notes to the Financial Statements

1. Basis of preparation

1.1 Reporting entity

R. Raphael & Sons plc ('Bank' or 'Company') is a company incorporated and domiciled in the UK. The Bank's registered office is at 19-21 Shaftesbury Avenue, London, W1D 7ED. The Company is engaged in the business of banking and related financial services. The financial statements contain information about the Bank as an individual company and do not contain consolidated financial information as the parent of a group. The Bank is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it, and its subsidiary undertaking, are included by full consolidation in the consolidated financial statements of its parent, Lenlyn Holdings Limited, which are publicly available.

1.2 Basis of preparation

The Company financial statements have been prepared and approved by the Directors for the first time in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'), and as adopted by the European Union, and consequently has applied IFRS 1.

The Company prepared its annual financial statements under United Kingdom Generally Accepted Accounting Practice ('UK GAAP') until 28 February 2015. UK GAAP differs in certain respects from IFRS, hence when preparing these financial statements, management has amended certain accounting and valuation methods and account disclosures to comply with IFRS. The reconciliations of UK GAAP to IFRS, as required by IFRS 1, are included in Note 34.

The principal accounting policies adopted in the preparation of these financial statements are set out in Note 2. The accounting policies have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 March 2014, for the purposes of the transition to IFRS. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the comparative income statement has also been reclassified to reflect the discontinued operation in a single line on the face of the income statement.

1.3 Basis of measurement

The financial statements have been prepared under the historical cost convention, modified to include the fair valuation of available for sale instruments, derivative instruments and freehold property, as permitted under IFRS.

1.4 Going concern

As noted in the Directors' report, the Directors are satisfied that the Company has adequate resources to continue in operational existence for the next 12 months and therefore these accounts are prepared on a going concern basis.

2. Accounting policies

2.1 Foreign currency translations

Functional and presentation currency
The financial statements are presented in Pounds Sterling which is the Company's functional and presentation currency, and all amounts, unless otherwise indicated, are stated in thousands (£'000).

Transactions and balances

Foreign currency transactions are translated into Sterling at exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities, denominated in foreign currencies, at year end exchange rates are recognised in the income statement.

Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost, are translated using the exchange rate at the transaction date. Foreign exchange gains and losses on equities classified as available for sale financial assets, are recognised in other comprehensive income ('OCI') in the available for sale reserve.

2.2 Interest

Interest income and expense are recognised in the income statement using the effective interest rate method ('EIR'). The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs, premiums or discounts and all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Once a financial asset or group of similar assets have been written down as a result of an impairment loss, interest income continues to be recognised using the original EIR on the revised carrying amount.

2.3 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income, including management fees, are recognised on an accruals basis as the related services are performed. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

2.4 Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised for tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.5 Financial instruments

(i) Recognition and initial measurement

Financial instruments include all financial assets and liabilities. These instruments are typically held for liquidity, investment, commercial or hedging purposes. All financial instruments are initially recognised at fair value plus directly attributable transaction costs. The Bank initially recognises loans and advances, and deposits on the date at which they are originated, and all other financial assets and liabilities are initially recognised on the settlement date of the transactions.

(ii) Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classification.

a) Financial assets

The Bank classifies its financial assets as either:

- Loans and receivables; or
- Available for sale; or
- Fair value through profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, these are measured at amortised cost using the EIR method.

The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the amount advanced and the maturity amount less impairment provisions for incurred losses.

Loans and receivables mainly comprise loans and advances to banks and customers and hire purchase agreement receivables.

A hire purchase agreement is a contract that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Hire purchase agreement receivables are recognised as loans at an amount equal to the gross investment in the lease, discounted at its effective interest rate.

Available for sale
Available for sale financial assets are debt securities or other investments that are not held for trading and are intended to be held for an indefinite period of time. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, they are measured at fair value based on current quoted bid prices in active markets for identical assets at the reporting date. Where there is no active market or the securities are unlisted, the fair values are based on commonly used valuation techniques. Interest income and foreign currency translation gains or losses on debt instruments are recognised in the income statement using the EIR method. Dividend income on long term investments are also recognised in the income statement. Other fair value changes are recognised in OCI and presented in the available for sale reserve in equity. On disposal, the gain or loss accumulated in equity is reclassified to the income statement.

Fair value through profit or loss
The Bank uses derivative financial instruments for risk management and investment purposes rather than as a trading strategy. Derivatives are recognised at fair value with the gain or loss on re-measurement recognised in

the income statement. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

b) Financial liabilities

Financial liabilities are contractual obligations to deliver cash or another financial asset. Financial liabilities are recognised initially at fair value, net of directly attributable transaction costs for financial liabilities other than derivatives. Financial liabilities, other than derivatives, are subsequently measured at amortised cost.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are recognised initially at fair value, which equates to issue proceeds net of transaction costs incurred. They are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

c) Impairment of financial assets

Loans and receivables

The Company assesses at each reporting date whether there is objective evidence that a loan or group of loans is impaired. A loan or group of loans is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the loan or group of loans that can be estimated reliably.

Criteria that are used by the Company in determining whether there is objective evidence of impairment include:

- Known cash flow difficulties experienced by the borrower; and
- A breach of contract, such as default or delinquency in interest and/or principal payments.

Identified incurred losses

The Company first assesses whether there is objective evidence of impairment individually for loans that are individually significant and then collectively for loans that are not individually significant.

When a loan carried at amortised cost has been identified as individually significant, the carrying amount of the loan is reduced to an amount equal to the present value of its estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the loan is reduced through the use of a credit impairment account and the loss is recognised as a credit impairment charge in the income statement.

Retail loan portfolios with no individually significant loans are assessed collectively for impairment. Impairments of groups of loans that are assessed collectively are recognised where there is objective evidence that a loss event has occurred after the initial recognition of the group of loans but before the reporting date. For the purposes of the assessment, loans with similar credit risk characteristics are grouped together – generally on the basis of their product type, past due status and other factors relevant to the evaluation of expected future cash flows. The impairment assessment includes estimating the expected future cash flows from the group of assets, which are then discounted at the loan portfolio's original effective interest rate. If this is lower than the carrying value of the assets, the carrying amount of the portfolio is reduced through the use of a credit impairment account and the loss is recognised as a credit impairment charge in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement. Following impairment, interest income continues to be recognised at the original effective interest rate on the restated carrying amount, represented by the unwind of the discount of the expected cash flows. Uncollectable loans are written off against the related allowance for loan impairment on completion of the Bank's internal processes and once all recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to the income statement.

Losses incurred but not yet identified

In order to provide for latent losses that have not yet been identified as impaired, a credit impairment provision for incurred but not yet identified losses, is recognised based on past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses. The model also includes an estimated emergence period, being the time period between the loss trigger events and the date on which the Company identifies the losses. The carrying amount of groups of loans is reduced through the use of a credit impairment account and the loss is recognised as a credit impairment charge in the income statement.

Available for sale financial investments

The Bank assesses at each balance sheet date whether there is evidence that available for sale financial investments (debt or equity) will not be recovered in full and, wherever necessary, recognises an impairment loss in the income statement. An impairment loss is recognised if there is objective evidence of impairment as a result of events that have occurred and these have adversely impacted the estimated future cash flows from the assets.

Impairment of available for sale debt instruments

Debt instruments are assessed for impairment in the same way as loans. If impairment is deemed to have occurred, the cumulative decline in the fair value of the instrument that has previously been recognised in the available for sale reserve is removed from reserves and recognised in the income statement. This may be reversed if there is evidence that the circumstances of the issuer have improved.

Impairment of available for sale equity instruments

Where there has been a prolonged or significant decline in the fair value of an equity instrument below its acquisition cost, it is deemed to be impaired. The cumulative net loss that has been previously recognised directly in the available for sale reserve is removed from reserves and recognised in the income statement. Further declines in the fair value of equity instruments after impairment are recognised in the income statement.

Reversal of available for sale impairments

If, in a subsequent period, the fair value of an impaired available for sale debt instrument increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through the income statement; otherwise, any increase in fair value is recognised through OCI. Any subsequent recovery in the fair value of an impaired available for sale equity security is always recognised in OCI.

d) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Bank establishes fair value using a valuation technique that maximises the use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in the income statement on an appropriate basis over the life of the instrument.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price.

e) Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Company has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset.

When a financial asset is derecognised in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in the income statement. When available for sale financial assets are derecognised, the cumulative gain or loss, including that previously recognised in reserves, is recognised in the income statement.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised in the income statement.

f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to setoff the recognised amounts and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

2.6 Intangible assets

Computer software

Software acquired by the Bank is capitalised as an intangible asset where the software is an identifiable asset which will generate future economic benefits. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over the estimated useful lives of the software, which are between 3 and 5 years.

Costs associated with maintaining computer software are recognised as an expense as incurred.

2.7 Property, plant and equipment

Historic cost

Equipment, furniture, computer hardware and vehicles are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Bank and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised in the income statement as incurred.

Depreciation, impairment losses and gains and losses on disposal of assets are included in the income statement. Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to their residual values. The assets' residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year end.

The estimated useful lives are as follows:

- Fixtures, fittings and equipment 5 years
- Computer hardware 5 years
- Motor vehicles 5 years

There has been no change to the estimated useful lives and depreciation methods from those applied in the previous financial year.

Items of property and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on derecognition is recognised in the income statement and is determined as the difference between the net disposal proceeds and the carrying amount of the item.

Revaluation model
Freehold property is considered to have a remaining useful economic life in excess of 50 years and is carried at a revalued amount under the revaluation model. The revalued amount represents the fair value at the date of revaluation. Revaluations are carried out on 3 year intervals unless there are indicators of a material change in value, in which case valuations are carried out more frequently.

When an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in OCI and accumulated in a separate reserve within equity. However, the increase is recognised in profit and loss to the extent that it reverses a revaluation loss of the same asset previously recognised in the income statement. A decrease of an asset's carrying amount as a result of a revaluation is recognised in OCI to the extent of any previously recognised revaluation gains accumulated in equity, in respect of that asset. If the revaluation loss exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess is recognised in the income statement.

2.8 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at least annually to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount (being the greater of fair value less costs to sell and value in use) is estimated. Value in use is calculated by discounting the future cash flows from continuing use of the asset. If the carrying value of the asset is less than the greater of the value in use and the fair value less costs to sell, an impairment loss is recognised in the income statement.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.9 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

2.10 Assets held for sale and discontinued operations

Assets that are expected to be recovered primarily through sale rather than continuing use, are classified as a disposal group held for sale. Immediately before classification as held for sale, the assets are re-measured in accordance with the Bank's accounting policies and tested for impairment. Thereafter, the disposal group is measured at the lower of its carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on re-measurement are recognised in the income statement. The assets held for sale are presented separately in the balance sheet. Property, and equipment and intangible assets, once classified as held for sale, are not depreciated or amortised.

The Bank classifies a component of the business as a discontinued operation when that component has been disposed of, or is classified as held for sale, and it:

- Represents a separate major line of business or geographical area of operations, or
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical are of operations.

The results of discontinued operations are shown as a single amount in the income statement comprising the post-tax profit or loss.

2.11 Segmental reporting

An operating segment is a component of the Bank engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and to assess segment performance. The Bank's identification of segments and the measurement of segment results are based on the Bank's internal reporting to management. Transactions between segments are priced at market-related rates.

2.12 Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of cashflows comprises cash balances, balances with central banks, debt securities and placements with banks with a maturity of three months or less. These balances are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

2.13 Operating Leases

Rentals made under operating leases are recognised in the income statement on a straight line basis over the term of the lease.

2.14 Future accounting developments

All standards or amendments to existing standards which have been endorsed by the EU and which are available for early adoption for annual periods commencing on or after 1 March 2015 have been adopted by the Company. There are also a number of standards, amendments and interpretations which have been issued by the IASB but which have not yet been endorsed by the EU. The most significant of these is IFRS 9: "Financial instruments", the planned replacement for IAS 39: "Financial Instruments: recognition and measurement". The following new standards are not yet effective for the year ended 29 February 2016 and have not been applied in preparing these annual financial statements.

IFRS 9 - Financial instruments

Under IFRS 9 financial assets are classified and measured based on the business model under which they are held and the characteristics of their contractual cash flows. The standard also introduces a new expected loss impairment model that will require more timely recognition of expected credit losses.

Expected credit losses are required to be measured through a loss allowance at an amount equal to either 12 month expected credit losses or full lifetime expected credit losses. A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition. For all other financial instruments, expected credit losses should be measured at an amount equal to 12 month expected credit losses.

IFRS 9 will be effective for annual periods beginning on or after 1 January 2018, subject to endorsement by the EU. The impact on the annual financial statements has not yet been fully determined.

IFRS 15 - Revenue from contracts with customers

This standard will replace the existing revenue standards and their related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments).

The core principle of the standard is that revenue recognised reflects the consideration to which the Company expects to be entitled in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five step analysis to determine the amount and timing of revenue recognition.

IFRS 15 will be effective for annual periods beginning on or after 1 January 2018. The impact on the annual financial statements has not yet been fully determined.

IFRS 16 - Leases

This standard will replace the existing standard, IAS 17 Leases, and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier). The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet.

The most significant change pertaining to the accounting treatment of operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a right of use asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The lessor accounting requirements in IAS 17 has not changed substantially in terms of this standard. As a result, a lessor continues to classify its leases as operating leases or finance leases and accounts for these as it currently done in terms of IAS 17. In addition, the standard requires the lessor to provide enhanced disclosures about its leasing activities and in particular about its exposure to residual value risk and how it is managed.

IFRS 16 will be effective for annual periods beginning on or after 1 January 2018. The impact on the annual financial statements has not yet been fully determined.

3. Critical accounting estimates and judgements

The preparation of the accounts in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

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

3.1 Effective interest rate

The effective interest rate method applies a rate that discounts estimated future cash payments or receipts relating to a financial instrument to its net carrying amount. The estimated future cash flows take into account all contractual terms of the financial instrument including transaction costs and all other premiums or discounts but excludes future credit losses. Models are reviewed at least annually to assess expected lives of groups of assets based upon actual repayment profiles.

3.2 Credit impairments

In determining whether an impairment should be recorded, judgements are made as to whether there is objective evidence that a financial asset or portfolio of financial assets is impaired as a result of loss events that occurred after recognition of the asset and by the reporting date. The calculation of an impairment loss is management's best estimate of losses incurred in the portfolio at the balance sheet date and reflects expected future cash flows based on both the likelihood of a loan being written off and the estimated loss on such a write-off. The Bank's accounting policy for loan impairment provisions on financial assets classified as loans and receivables is described in Note 2.5c.

Identified incurred losses – Hire purchase agreement receivables
The retail loan portfolios comprise large numbers of small homogenous assets with similar risk characteristics, where statistical techniques are used to calculate impairment allowances on a portfolio basis. These statistical analyses use as primary inputs the extent to which accounts in the portfolio are in arrears and historical information on the eventual losses encountered from such delinquent portfolios. The key assumptions used in the impairment model are the probability of default ('PD'), and the loss given default ('LGD'). Judgement is needed in selecting the statistical methods when the models are developed or revised. Loans are considered as impaired for which instalments are due and unpaid. The impairment allowance reflected in the financial statements for these portfolios is considered to be reasonable and supportable. A change of 1 percentage point in the LGD will result in a £15k (2015: £10k) change in the value of the impairment. A change of 1 percentage point in the PD will result in a £18k (2015: £11k) change in the value of the impairment.

Losses incurred but not yet identified – Hire purchase agreement receivables
The impairment for latent losses in a group of loans that have not yet been identified as impaired, is determined on a portfolio basis based on a calculated loss ratio. The loss ratio is calculated based on historic loss patterns and an estimated emergence period, being the time period between the loss trigger events and the date on which the Company identifies the losses. The loss ratio is applied to loan balances that are neither past due nor impaired at the reporting date. At the year end, a number of factors including emergence period, recent loss history and probability of default were considered. Of these factors, the loss emergence period is a key input (2016: 3 months; 2015: 3 months). An increase of 1 month in the emergence period will result in an increase of £23k (2015: £16k) in the impairment charge. A decrease of 1 month in the emergence period will result in a reduction of £69k (2015: £52k) in the impairment charge.

3.3 Discontinued operations and non-current assets held for sale

As the result of a strategic review, the Bank determined that it wishes to exit the ATM business since the ATM network does not form a core part of the Bank's other customer propositions. The Bank signed an agreement on 1 April 2016 to sell its ATM business to a subsidiary of International Currency Exchange Limited ('ICE'). The sale is expected to complete in 2016.

The ATM business represents a major business unit of which the assets are to be recovered principally through a sale transaction rather than continuing use. As a result, the ATM business is classified as a disposal group in terms of IFRS 5, and the relevant assets and liabilities were classified as held for sale at 29 February 2016. The segment is classified as a discontinued operation and its results for the year are presented in a single line item on the face of the income statement.

3.4 Fair value measurement

The fair value of financial instruments that are not quoted in active markets is determined using valuation techniques. Changes in these assumptions could affect the reported fair values of financial instruments.

Visa Europe Limited investment
Following the public announcement on 2 November 2015 of the proposed sale of Visa Europe Limited ('Visa Europe') to Visa Inc., the fair value of the Company's equity interest in Visa Europe has been established by reference to the consideration offered by Visa Inc. A gain has been recognised in other comprehensive income for the revised valuation.

Details of the valuation are disclosed in Note 26. Sensitivities of the valuation are as follows:

- A 1% change in the value of the preferred shares would lead to a €137k change in value of the investment, £108k converted at the 29 February 2016 EUR/GBP exchange rate.
- A 1% change in the EUR/GBP exchange rate would lead to a £219k change in value of the investment.

Equity option

In 2014, the Bank entered into a contractual arrangement with a lending partner company, whereby the Bank has an option to subscribe for a 15% interest in the ordinary share capital of the partner company. This option is exercisable at any time for as long as the services agreement between the Bank and the partner remains in force. If the option has not been exercised upon termination of the services agreement, it shall lapse in full. The option was valued based on a model which incorporate assumptions that are not based on available observable market data. Such assumptions include forecasts, risk premiums and discount rates.

3.5 Taxation

The Company is subject to direct and indirect taxation. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Company recognises liabilities based on estimates of the quantum of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax expense in the year in which such determination is made.

4. Segmental information

The Bank has three reportable operating segments plus Central Functions. Each operating segment offers groups of similar products and services and is managed separately based on the Bank's internal reporting structure. The reporting of the Banking division is allocated between Lending and Central Functions. The following summary describes the operations in each of the Bank's reportable segments:

Continuing operations

- Payment services – Prepaid card operations, together with other payment services.
- Lending – Hire purchase for motor vehicles and SME asset finance. Loans made to customers, including sports season tickets, medical, student support and unsecured personal loans. Lending also includes the fixed rate bonds raised by the Banking division.
- Central – Central includes common support costs incurred as well as the operating costs of the Banking division, which is responsible for raising finance on behalf of the operating segments. Central represents the reconciling item between the total of the three reportable operating segments and the consolidated income statement.

Discontinued operation

- ATM – an estate of cash machines, providing Sterling, Euro and US Dollar cash, together with settlement of foreign currency card withdrawals.

Financing costs are allocated to business units based on the cost of funding. Common support costs are incurred on behalf of the operating segments and typically represent savings, administration costs, back office costs and support function costs such as Finance, Compliance, IT and Human Resources. These indirect costs are not allocated to the operating segments in the tables that follow.

Notes to the Financial Statements (continued)

	Continuing operations				Discontinued operation	
Segmental results for the year ended 29 February 2016	**Payment Services £'000**	**Lending £'000**	**Central £'000**	**Total £'000**	**ATM £'000**	**Total £'000**
Interest income - external customers	185	9,786	178	10,149	197	10,346
Interest expense - external customers	-	(2,042)	(514)	(2,556)	-	(2,556)
Interest (expense)/income - internal	(71)	191	259	379	(379)	-
Net fees and other income	3,684	(375)	163	3,472	7,926	11,398
Total operating income	3,798	7,560	86	11,444	7,744	19,188
Operating expenses	(1,713)	(2,276)	(5,729)	(9,718)	(5,910)	(15,628)
Regulatory charges and associated costs	-	-	(1,701)	(1,701)	-	(1,701)
Credit impairment charge	-	(830)	-	(830)	-	(830)
Segmental result	2,085	4,454	(7,344)	(805)	1,834	1,029
Income tax charge				(221)	(368)	(589)
Profit/(loss) after tax				(1,026)	1,466	440
Other information						
Depreciation and amortisation	(2)	(51)	(140)	(193)	(786)	(979)
Profit on disposal of property, plant and equipment			1	1	14	15
Additions to non-current assets	553	9	191	753	602	1,355

	Continuing operations				Discontinued operation	
Segmental results for the year ended 28 February 2015	**Payment Services £'000**	**Lending £'000**	**Central £'000**	**Total £'000**	**ATM £'000**	**Total £'000**
Interest income - external customers	204	7,907	204	8,315	197	8,512
Interest expense - external customers	-	(1,769)	(145)	(1,914)	(317)	(2,231)
Interest (expense)/income - internal	(25)	167	149	291	(291)	-
Net fees and other income	2,814	(247)	91	2,658	7,455	10,113
Total operating income	2,993	6,058	299	9,350	7,044	16,394
Operating expenses	(1,629)	(1,912)	(5,181)	(8,722)	(5,405)	(14,127)
Credit impairment charge	-	(357)	-	(357)	-	(357)
Segmental result	1,364	3,789	(4,882)	271	1,639	1,910
Income tax charge				(127)	(347)	(474)
Profit after tax				144	1,292	1,436
Other information						
Depreciation and amortisation	-	(42)	(108)	(150)	(780)	(930)
Profit on disposal of property, plant and equipment			1	1	-	1
Additions to non-current assets	-	21	248	269	346	615

Notes to the Financial Statements (continued)

Segmental balance sheet at 29 February 2016	Continuing operations				Discontinued operation	
	Payment Services £'000	Lending £'000	Central £'000	Total £'000	ATM £'000	Total £'000
Assets						
Cash and balances with central banks	**16,530**	**-**	**33,173**	**49,703**	**-**	**49,703**
Available for sale investments and derivative assets	**94,427**	**-**	**22,269**	**116,696**	**-**	**116,696**
Loans and advances	**98,003**	**88,789**	**9,949**	**196,741**	**-**	**196,741**
Deferred tax and other assets	**935**	**35**	**121**	**1,091**	**-**	**1,091**
Intangible assets and property, plant and equipment	**558**	**814**	**457**	**1,829**	**-**	**1,829**
Non current assets classified as held for sale	**-**	**-**	**-**	**-**	**12,847**	**12,847**
Total assets	**210,453**	**89,638**	**65,969**	**366,060**	**12,847**	**378,907**
Liabilities						
Customer accounts	**183,438**	**119,637**	**1,662**	**304,737**	**-**	**304,737**
Tax and other liabilities	**23,155**	**515**	**8,138**	**31,808**	**-**	**31,808**
Liabilities classified as held for sale	**-**	**-**	**-**	**-**	**671**	**671**
Total liabilities	**206,593**	**120,152**	**9,800**	**336,545**	**671**	**337,216**

Segmental balance sheet at 28 February 2015	Continuing operations				Discontinued operation	
	Payment Services £'000	Lending £'000	Central £'000	Total £'000	ATM £'000	Total £'000
Assets						
Cash and balances with central banks	23,087	-	22,645	45,732	4,282	50,014
Available for sale investments and derivative assets	78,114	-	183	78,297	118	78,415
Loans and advances	125,089	69,619	5,536	200,244	1,774	202,018
Deferred tax and other assets	4,615	64	178	4,857	5,539	10,396
Intangible assets and property, plant and equipment	7	785	440	1,232	2,249	3,481
Total assets	230,912	70,468	28,982	330,362	13,962	344,324
Liabilities						
Customer accounts	188,050	88,921	984	277,955	-	277,955
Tax and other liabilities	24,796	694	14,000	39,490	3,399	42,889
Total liabilities	212,846	89,615	14,984	317,445	3,399	320,844

5. Net interest income

	2016 £'000	2015 £'000
Interest on loans and advances to customers	**9,802**	7,963
Interest on debt securities and loans and advances to banks	**347**	352
Interest income	**10,149**	8,315
Interest expense on customer deposits	**(2,177)**	(1,623)
Net interest income	**7,972**	6,692

6. Net fee and commission income

	2016 £'000	2015 £'000
Management fees	**3,594**	2,884
Other fee income	**253**	265
Fee and commission income	**3,847**	3,149
Fee and commission expense	**(632)**	(441)
Net fee and commission income	**3,215**	2,708

7. Other income/(loss)

	2016 £'000	2015 £'000
Foreign exchange gains/(losses)	**101**	(58)
Revaluation gain[1]	**40**	-
Refund of overpaid historical interest	**104**	-
Fair value gain on call option[2]	**12**	8
Other income/(loss)	**257**	(50)

[1]The freehold land and buildings were revalued on an open market for existing use basis at £725k. This resulted in a gain of £40k which is a partial reversal of a £165k impairment recognised in previous years.

[2]In February 2014, the Bank entered into a contractual arrangement with an unlisted lending partner company that grants the Bank an option to subscribe for a 15% shareholding in the partner company. This option may be exercised for as long as the services agreement between the Bank and the lending partner remains in force. If the option has not been exercised upon termination of the services agreement, it shall lapse in full.

8. Operating expenses

	2016 £'000	2015 £'000
Amortisation of intangible assets	(25)	(2)
Depreciation of property, plant and equipment	(168)	(148)
Profit on disposal of property, plant and equipment	1	1
Fees payable to the Company's auditor	(208)	(100)
Fees payable to the Company's auditor for the audit of the Company's financial statements	(116)	(85)
Taxation compliance services	(17)	(15)
Taxation advisory services	(5)	-
Other assurance services	(70)	-
Consultancy, legal and professional fees	(711)	(728)
Operating leases - land and buildings	(57)	(58)
Other administrative expenses	(2,779)	(2,669)
Staff costs	(5,771)	(5,018)
Total operating expenses	**(9,718)**	(8,722)

8.1 Staff costs

	2016 £'000	2015 £'000
Salaries and allowances	(5,089)	(4,428)
Social security costs	(537)	(463)
Other pension costs	(145)	(127)
Total staff costs	**(5,771)**	(5,018)

The average number of persons employed by the Bank during the year, including Non-executive Directors, was as follows:

	2016	2015
Payment services	24	22
Lending	32	30
Central	43	40
Banking	8	7
Management and administration	35	33
ATM	9	8
Total number	**108**	100

8.2 Remuneration of Directors

	2016 £'000	2015 £'000
Directors' emoluments	**895**	880
Directors' fees	**126**	91
Pension costs[1]	**40**	34
Other benefits	**21**	20
Total	**1,082**	1,025

[1]In relation to 5 Directors (2015: 5).

The emoluments of the highest paid Director amounted to £363k (2015: £346k), which includes pension contributions of £8k (2015: £7k). During the year, 3 of the Directors of the Company and 1 former Director (2015: 4) received £236k (2015: £217k) from the parent company's medium term incentive scheme. At 29 February 2016, these Directors are due to receive £70k (2015:£306k).

9. Regulatory charge and associated costs

In November 2015 the Prudential Regulation Authority ('PRA') fined the Bank £1.3m for failure to properly manage an outsourced relationship with another part of the Lenlyn group relating to the ATM division. Full details of the fine and the circumstances are available on the PRA's website. Whilst neither the Bank, nor any of its customers suffered any losses as a result of this matter, the Bank accepted the fine and settled with the PRA. Many changes were made in the Bank's operations after the discovery of the matter by the Bank in early 2014, including bringing in-house all of its finance, IT, HR, marketing and support functions and the ATM operations team. The Bank incurred £0.4m in legal costs during the PRA investigation.

10. Taxation

10.1 Income tax charge

	2016 £'000	2015 £'000
Current tax		
Current year	**(439)**	(530)
Adjustment in respect of prior years	**1**	(18)
Total current tax	**(438)**	(548)
Deferred tax		
Origination and reversal of temporary difference	**(150)**	90
Impact of change in tax rate	**(4)**	-
Adjustment in respect of prior years	**3**	(16)
Total deferred tax	**(151)**	74
Total tax charge	**(589)**	(474)
Consists of:		
Continuing operations	**(221)**	(127)
Discontinued operations	**(368)**	(347)

A deferred tax charge of £4,283k was recognised in other comprehensive income in respect of available for sale investments (2015: £nil).

10.2 Tax rate reconciliation

The tax charge for the year differs from that calculated using the UK standard rate of corporation tax. The differences are explained below:

	2016 £'000	2015 £'000
Profit/(loss) before tax:		
Continuing operations	**(805)**	271
Discontinued operations	**1,834**	1,639
	1,029	1,910
Tax charge at the standard rate of 20.08% (2015: 21.17%)	**(207)**	(404)
Effects of:		
Adjustments to tax charge in respect of previous periods	**4**	(34)
Expenses not deductible for tax purposes	**(390)**	(36)
Impact of change in tax rate	**(4)**	-
Income not taxable for tax purposes	**8**	-
Tax charge included in the income statement	**(589)**	(474)
Tax charge included in other comprehensive income[1]	**(4,283)**	-
Total tax charge for the year	**(4,872)**	(474)

[1]Tax charge on available for sale investments.

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax liability at 29 February 2016 has been calculated based on these rates. An additional reduction to 17% (effective from 1 April 2020) was announced in the budget on 16 March 2016.

10.3 Deferred tax

Analysis of recognised deferred tax assets/(liabilities)

Year ended 29 February 2016	Balance at start of year £'000	Recognised in income statement £'000	Recognised in other comprehensive income £'000	Balance at end of year £'000
Capital allowances	**21**	**35**	**-**	**56**
Available for sale investments	**2**	**-**	**(4,283)**	**(4,281)**
Other temporary differences	**172**	**(186)**		**(14)**
Deferred tax asset/(liability)	**195**	**(151)**	**(4,283)**	**(4,239)**

Notes to the Financial Statements (continued)

Year ended 28 February 2015	Balance at start of year £'000	Recognised in income statement £'000	Recognised in other comprehensive income £'000	Balance at end of year £'000
Capital allowances	(24)	45	-	21
Available for sale investments	2	-	-	2
Other temporary differences	143	29	-	172
Deferred tax asset/(liability)	121	74	-	195

There were no unrecognised deferred tax balances at 29 February 2016 (2015: £nil).

11. Cash and balances with central banks

	2016 £'000	2015 £'000
Cash	**1**	4,282
Placements with Bank of England	**49,702**	45,732
Cash and balances with central banks	**49,703**	50,014

12. Loans and advances to banks

Maturity analysis	**2016 £'000**	2015 £'000
On demand	**105,953**	130,379
Three months or less	**2,703**	2,695
Total loans and advances to banks	**108,656**	133,074

Included within amounts receivable on demand are amounts of £96,348k (2015: £122,795k) which are held in designated accounts with banks under card programmes. These together with short term investments of £94,427k (2015: £78,114k) and placements with Bank of England of £16 530k (2015: £23 087k) are used to cover liabilities under these programmes. The associated cardholder liabilities are disclosed in Note 22.

There were no individual or collective impairments against loans and advances to banks. Additional disclosure is provided in the risk management section in Note 32.2.1.

13. Available for sale investments

	2016 £'000	2015 £'000
UK government securities	**22,476**	17,492
Foreign government debt securities	**59,730**	47,323
Supranational debt securities	**7,455**	4,438
Money market funds	**4,766**	8,861
Total debt securities	**94,427**	78,114
Equity investments	**22,184**	110
Other investments	**-**	118
Total available for sale investments	**116,611**	78,342

At 29 February 2016, all of the debt securities were due to mature within 12 months of the reporting date. Additional disclosure is presented in Note 32.2.1, financial risk management.

Equity investments include an investment in Visa Europe which was revalued following the public announcement of the proposed sale of Visa Europe to Visa Inc., by reference to the consideration offered by Visa Inc. Additional details of the valuation are disclosed in Notes 3.4 and 26.

There were no impairment losses in respect of available for sale investments.

14. Loans and advances to customers

Maturity analysis	2016 £'000	2015 £'000
Three months or less	**7,402**	8,926
Between three months and one year	**8,665**	7,013
Between one and five years	**9,493**	8,445
In more than five years	**90**	92
Total loans and advances to customers	**25,650**	24,476

Loans and advances to customers are introduced to the Bank and administered on its behalf by third party firms. The Bank has arrangements whereby each third party will buy back outstanding balances on loans where the accounts have fallen into arrears. Given the risk mitigation and historical recovery rates, no impairment is recognised against these loan portfolios. Additional disclosure is provided in Note 32.2.2, financial risk management.

15. Hire purchase agreement receivables

15.1 Hire purchase agreement receivables

	2016 £'000	2015 £'000
Gross receivables	**78,546**	56,001
Less: Deferred revenue	**(14,654)**	(10,571)
Net amounts receivable before credit impairments	**63,892**	45,430
Less: Credit impairments	**(1,457)**	(962)
Net amounts receivable under hire purchase agreements	**62,435**	44,468
Amounts receivable under hire purchase agreements are repayable as follows:		
Three months or less	**6,116**	4,499
Between three months and one year	**14,046**	12,168
Between one and five years	**43,730**	28,763
	63,892	45,430

Notes to the Financial Statements (continued)

15.2 Allowance for impairment losses

29 February 2016	Losses incurred but not yet identified £'000	Identified incurred losses £'000	Total £'000
Balance at beginning of the year	**(124)**	**(838)**	**(962)**
Net income statement charge	**(92)**	**(738)**	**(830)**
Amounts written off	**-**	**335**	**335**
Balance at end of the year	**(216)**	**(1,241)**	**(1,457)**

28 February 2015	Losses incurred but not yet identified £'000	Identified incurred losses £'000	Total £'000
Balance at beginning of the year	(79)	(1,034)	(1,113)
Net income statement charge	(45)	(312)	(357)
Amounts written off	-	508	508
Balance at end of the year	(124)	(838)	(962)

16. Derivative assets

In February 2014, the Bank entered into a contractual arrangement with an unlisted lending partner company, whereby the Bank has an option to subscribe for a 15% share interest in the ordinary share capital in the partner company. This option may be exercised for as long as a services agreement between the Bank and the lending partner remains in force. If the option has not been exercised upon termination of the services agreement, it shall lapse in full. The option has a fair value of £85k at 29 February 2016.

During the year the Bank entered into a foreign exchange option contract as protection against significant fluctuations in the GBP/EUR exchange rate. The option, with a notional value of €4m, has an expiration date of 31 May 2016. The option has a fair value of £nil at 29 February 2016 due to the unfavourable strike price.

17. Prepayments, accrued income and other debtors

	2016 £'000	2015 £'000
Prepayments and other debtors	**156**	944
Trade debtors - ATM	**-**	6,041
Trade debtors - Payment Services	**935**	3,216
Total prepayments, accrued income and other debtors	**1,091**	10,201

18. Investment in subsidiary

Shares in the subsidiary undertaking at the end of the year amounted to £1 (2015: £1). The subsidiary undertaking and its activities are set out below:

Name	Principal Activity	Shareholding
Southern Finance Company Limited	Non-Trading	100%

Notes to the Financial Statements (continued)

The subsidiary is wholly owned by the Bank, is incorporated within the United Kingdom and the investment is in ordinary shares.

19. Property, plant and equipment

Cost	Freehold property £'000	Fixtures, fittings & equipment £'000	Computer hardware £'000	Motor vehicles £'000	Total £'000
Opening balance at 1 March 2015	685	2,628	512	58	3,883
Additions	-	420	125	27	572
Disposals	-	(11)	-	(17)	(28)
Revaluation	40	-	-	-	40
Reclassified to held for sale	-	(2,933)	(2)	-	(2,935)
Closing balance at 29 February 2016	725	104	635	68	1,532
Accumulated depreciation					
Opening balance at 1 March 2015	-	(744)	(337)	(38)	(1,119)
Depreciation charge	-	(637)	(78)	(11)	(726)
Disposals	-	11	-	15	26
Reclassified to held for sale	-	1,284	-	-	1,284
Closing balance at 29 February 2016	-	(86)	(415)	(34)	(535)
Net book value	725	18	220	34	997

Cost	Freehold property £'000	Fixtures, fittings & equipment £'000	Computer hardware £'000	Motor vehicles £'000	Total £'000
Opening balance at 1 March 2014	685	2,337	669	62	3,753
Additions	-	291	67	10	368
Disposals	-	-	(224)	(14)	(238)
Closing balance at 28 February 2015	685	2,628	512	58	3,883
Accumulated depreciation					
Opening balance at 1 March 2014	-	(121)	(489)	(45)	(655)
Depreciation charge	-	(623)	(72)	(5)	(700)
Disposals	-	-	224	12	236
Closing balance at 28 February 2015	-	(744)	(337)	(38)	(1,119)
Net book value	685	1,884	175	20	2,764

The freehold property was revalued on 30 September 2015, on an open market value for existing use basis, by an independent surveyor. A £40k revaluation surplus was recognised in other revenue as it represents a partial reversal from a previous impairment. The property had an original cost of £850k which was subsequently impaired by £165k. If the assets were carried under the cost model, it would have had a carrying value of £685k at 29 February 2016.

20. Intangible assets

Computer software	2016 £'000	2015 £'000
Cost at beginning of the year	**1,730**	1,516
Additions	**783**	247
Disposals	**-**	(33)
Reclassified to held for sale	**(1,458)**	-
Cost at end of the year	**1,055**	1,730
Amortisation at beginning of the year	**(1,013)**	(816)
Amortisation charge	**(253)**	(230)
Disposals	**-**	33
Reclassified to held for sale	**1,043**	-
Amortisation at end of the year	**(223)**	(1,013)
Net carrying value at end of year	**832**	717

Capitalised computer software represents computer software which are of a strategic nature with an expected useful life of 3-5 years. The carrying value represents external costs with no internal development costs capitalised. Included in the carrying value is a data warehouse platform with a cost of £550k, acquired on 29 February 2016 from a Lenlyn Group company. The assets are amortised on a straight-line basis over their expected useful life.

21. Customer deposits

Amounts repayable:	2016 £'000	2015 £'000
On demand	**390**	367
Three months or less	**15,881**	20,659
Between three months and one year	**52,566**	56,121
Between one year and five years	**52,462**	12,758
Total customer deposits	**121,299**	89,905

22. Other customer accounts

Amounts denominated in:	2016 £'000	2015 £'000
Sterling	**41,349**	47,741
Euro	**87,687**	90,910
US Dollar	**35,404**	33,802
Other	**18,998**	15,597
Total other customer accounts	**183,438**	188,050

Other customer accounts represent cardholder liabilities in respect of cards issued by the Bank. These are not protected deposits under the Financial Services Compensation Scheme ('FSCS'), but balances are held in designated accounts or securities to cover these liabilities and are disclosed separately in Notes 12 and 13.

23. Other liabilities

Amounts payable within 12 months	2016 £'000	2015 £'000
Accrued expenses	**947**	2,251
Deferred income and other creditors	**345**	367
Trade creditors - ATM	**2,267**	2,485
Trade creditors - Payment Services	**23,018**	36,882
Trade creditors - Other	**634**	655
Total accruals and deferred income	**27,211**	42,640

Trade creditors – Payment Services represents amounts owned to VISA and MasterCard for net settlement of cardholder spend and prefunding of card schemes by the card programme managers.

Trade creditors – ATM represents amounts owed to the ATM estate managers for cash settlements and other services performed under contractual agreements. The settlement of these liabilities are excluded from the transaction described in Note 24 and consequently does not form part of the liabilities held for sale as disclosed in the balance sheet.

23.1 Provisions

In common with all regulated UK deposit takers, the Bank pays levies to the FSCS to enable the FSCS to meet its claims. The FSCS levy consists of two parts: a management expenses levy and a compensation levy, which includes capital and interest levies. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

The FSCS provision at 29 February 2016 of £79k (2015: £68k) represents interest levies for the scheme years 2014/2015 and 2015/2016. The capital levy is paid in the same financial year in which it is levied.

24. Discontinued operation

As the result of a strategic review, the Bank has determined that it wishes to exit the ATM business as it has been highly dependent on the contracts with the Lenlyn Group for profitability, and the ATM network does not form a core part of the Bank's other customer propositions. Conversely, ATMs are a key part of the business of the Bank's sister company, International Currency Exchange Limited ('ICE') and accordingly the Bank signed an agreement on 1 April 2016 to sell its ATM business to a subsidiary of ICE, which is expected to complete within 2016. The transaction will be cash settled and the Bank does not anticipate making a material profit or loss on this arrangement.

The intended disposal resulted in the Bank classifying this segment as a discontinued operation, as required by IFRS 5, which is shown as a single amount on the face of the income statement. The operating result of the discontinued operation is disclosed in Note 4.

The discontinued business unit contributed £542k (2015: £591k) to the Bank's net operating cash flows and £587k (2015: £346k) was used in the Bank's investing activities.

25. Assets classified as held for sale and associated liabilities

As described in Note 24 above, the assets within the ATM business are to be recovered principally through a sale transaction rather than continuing use. As a result, the ATM business is classified as a disposal group and the relevant assets and liabilities were classified as held for sale at 29 February 2016. In terms of the agreement, the proceeds less cost to sell are not expected to be less than the carrying value and as a result no impairment was recognised at the reporting date.

ATM business	2016 £'000
Assets classified as held for sale	
Cash and balances with central banks	4,552
Available for sale investments	118
Prepayments, accrued income and other debtors	6,111
Property, plant and equipment	1,651
Intangible assets	415
Total assets classified as held for sale	**12,847**
Liabilities classified as held for sale	
Other liabilities	671
Total liabilities classified as held for sale	**671**

26. Financial instruments

26.1 Classification of financial instruments

Financial assets and liabilities are measured on an on-going basis either at fair value or amortised cost. The following tables summarise the classification of the Bank's financial assets and liabilities on measurement basis:

At 29 February 2016	Loans and receivables[1] £'000	Available for sale[2] £'000	Fair value through profit or loss[2] £'000	Liabilities at amortised cost[1] £'000	Carrying value £'000
Cash and balances with central banks	49,703	-	-	-	49,703
Loans and advances to banks	108,656	-	-	-	108,656
Available for sale investments	-	116,611	-	-	116,611
Loans and advances to customers	25,650	-	-	-	25,650
Hire purchase agreement receivables	62,435	-	-	-	62,435
Derivative assets	-	-	85	-	85
Non current assets classified as held for sale	4,552	118	-	-	4,670
Total financial assets	250,996	116,729	85	-	367,810
Non-financial assets[3]					11,097
Total assets					378,907
Customer deposits	-	-	-	121,299	121,299
Other customer accounts	-	-	-	183,438	183,438
Total financial liabilities	-	-	-	304,737	304,737
Non-financial liabilities					32,479
Total liabilities					337,216

[1]Instruments measured at amortised cost.
[2]Instruments measured at fair value.
[3]Includes non-financial assets classified as held for sale.

Notes to the Financial Statements (continued)

At 28 February 2015	Loans and receivables[1] £'000	Available for sale[2] £'000	Fair value through profit or loss[2] £'000	Liabilities at amortised cost[1] £'000	Carrying value £'000
Cash and balances with central banks	50,014	-	-	-	50,014
Loans and advances to banks	133,074	-	-	-	133,074
Available for sale investments	-	78,342	-	-	78,342
Loans and advances to customers	24,476	-	-	-	24,476
Hire purchase agreement receivables	44,468	-	-	-	44,468
Derivative assets	-	-	73	-	73
Total financial assets	252,032	78,342	73	-	330,447
Non-financial assets					13,877
Total assets					344,324
Customer deposits	-	-	-	89,905	89,905
Other customer accounts	-	-	-	188,050	188,050
Total financial liabilities	-	-	-	277,955	277,955
Non-financial liabilities					42,889
Total liabilities					320,844

[1]Instruments measured at amortised cost.
[2]Instruments measured at fair value.

26.2 Financial instruments carried at fair value

The Bank holds certain financial assets at fair value and the tables that follow analyse financial instruments according to the source of input when deriving fair value.

Level 1: Fair value is determined using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value is determined using directly or indirectly observable inputs other than unadjusted quoted prices included within level 1.

Level 3: Fair value is determined using valuation techniques which incorporate assumptions based on unobservable inputs and are subject to management's judgement. Although the Bank believes that its estimates of fair values are appropriate, changing one or more of these assumptions to reasonably possible alternative values could impact the fair value of the financial instruments.

Key considerations in the calculation of the fair values include the following:

Debt securities
Valuation is based on securities which are actively traded in recognised markets, with quoted prices readily available.

Equity and other investments
Equity and other investments mainly consists of an equity interest in Visa Europe, which has been valued by reference to consideration, some of which is contingent upon future events, that will be receivable upon completion of the announced sale of Visa Europe to Visa Inc. The elements of consideration that are contingent on future events have been deemed unobservable and no value has been attributed to such elements in the year-end valuation.

The Bank has assigned the following valuation to the investment as a result of the transaction:

- Cash payment of €19,910k. The fair value of the cash consideration has been measured as the Bank's expected proportionate share of the upfront proceeds from the sale.
- Preferred shares of €8,220k. The shares are convertible to Visa Inc. common shares subject to satisfaction of certain conditions and the final amount is subject to a significant litigation contingency. Given the uncertainty surrounding the level of liability for any litigation, and a total period of 12 years before any shares are received, the Bank has assigned a fair value that represent 60% of the total potential value of the shares identified by Visa Inc.
- Deferred earn-out of €Nil. There is a possible earn-out over 4 years but due to high levels of uncertainty over the nature and likely size of the earn-out, the Bank has recognised a value of zero to these deferred cash.

On 22 April 2016, subsequent to management's assessment of the year-end valuation, Visa Inc. made a further announcement regarding the terms of the agreement. These revised terms have therefore not been reflected in the financial statements.

Derivative assets
Derivative instruments consist of an equity option and a foreign exchange option as disclosed in Note 16. The value of the equity option was determined in a model which incorporate assumptions based on unobservable inputs and are subject to management's judgement. The assumptions include forecasts of the underlying entity's expected profitability, risk premiums and discount rate. A change of 1 percentage point in the discount rate would result in a £7k (2015: £6k) change in the value of the option.

The key inputs in the valuation of the foreign exchange call option are the strike price and time to expiration. Due to the unfavourable strike price of the option and the limited time to expiration, the fair value of the foreign exchange option is £nil at 29 February 2016.

	Level 1	Level 2	Level 3	Total
At 29 February 2016	**£'000**	**£'000**	**£'000**	**£'000**
Available for sale securities	**94,427**	**-**	**22,184**	**116,611**
Government securities	**89,661**	**-**	**-**	**89,661**
Money market funds	**4,766**	**-**	**-**	**4,766**
Equity and other investments	**-**	**-**	**22,184**	**22,184**
Derivative assets			**85**	**85**
Non current assets classified as held for sale	**-**	**-**	**118**	**118**
Financial assets carried at fair value	**94,427**	**-**	**22,387**	**116,814**

	Level 1	Level 2	Level 3	Total
At 28 February 2015	**£'000**	**£'000**	**£'000**	**£'000**
Available for sale securities	78,114	-	228	78,342
Government securities	69,253	-	-	69,253
Money market funds	8,861	-	-	8,861
Equity and other investments	-	-	228	228
Derivative assets	-	-	73	73
Financial assets carried at fair value	78,114	-	301	78,415

There were no significant transfers between level 1 and level 2 in the current year.

26.3 Reconciliation of level 3 financial instruments

	2016 £'000	2015 £'000
Balance at beginning of the year	**301**	293
Gains included in the income statement	**12**	8
Gains included in other comprehensive income	**22,074**	-
Balance at end of the year	**22,387**	301

26.4 Fair values of financial instruments carried at amortised cost

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not carried at fair value:

At 29 February 2016	**Carrying value £'000**	**Fair value £'000**	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Cash and balances with central banks	**49,703**	**49,703**	**49,703**	**-**	**-**
Loans and advances to banks	**108,656**	**108,656**	**-**	**108,656**	**-**
Loans and advances to customers	**25,650**	**25,650**	**-**	**-**	**25,650**
Hire purchase agreement receivables	**62,435**	**60,195**	**-**	**-**	**60,195**
Non current assets classified as held for sale	**4,552**	**4,552**	**4,552**	**-**	**-**
Financial assets carried at amortised cost	**250,996**	**248,756**	**54,255**	**108,656**	**85,845**
Customer deposits	**121,299**	**121,331**	**-**	**121,331**	**-**
Other customer accounts	**183,438**	**183,438**	**-**	**183,438**	**-**
Financial liabilities carried at amortised cost	**304,737**	**304,769**	**-**	**304,769**	**-**

At 28 February 2015	**Carrying value £'000**	**Fair value £'000**	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Cash and balances with central banks	50,014	50,014	50,014	-	-
Loans and advances to banks	133,074	133,074	-	133,074	-
Loans and advances to customers	24,476	24,476	-	-	24,476
Hire purchase agreement receivables	44,468	42,965	-	-	42,965
Financial assets carried at amortised cost	252,032	250,529	50,014	133,074	67,441
Customer deposits	89,905	90,091	-	90,091	-
Other customer accounts	188,050	188,050	-	188,050	-
Financial liabilities carried at amortised cost	277,955	278,141	-	278,141	-

Key considerations in the calculation of the disclosed fair values includes the following:

Cash and balances with central banks
These represent amounts with an initial maturity of less than three months and as such their carrying value is considered a reasonable approximation of their fair value.

Loans and advances to banks
These represent either amounts with an initial maturity of less than three months or longer term variable rate deposits placed with banks, where adjustments to fair value in respect of the credit risk of the counterparty are

not considered necessary. Accordingly the carrying value of the assets is considered to be not materially different from their fair value.

Loans and advances to customers and hire purchase agreement receivables
Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

Customer deposits
The fair value of fixed rate customers' accounts have been determined by discounting estimated future cash flows based on market interest rates on equivalent deposits.

Other customer accounts
These represent amounts repayable on demand and as such their carrying value is considered a reasonable approximation of their fair value.

27. Share capital

	2016	2015
	£'000	£'000
Allotted, issued, called up and fully paid:		
13,600,000 ordinary shares of £1 each	**13,600**	13,600

28. Notes to the cash flow statement

28.1 Net increase in income earning assets

	2016	2015
	£'000	£'000
Loans and advances to customers	**(1,174)**	(2,380)
Hire purchase agreement receivables	**(18,797)**	(9,790)
Prepayments, accrued income and other debtors	**3,188**	20
	(16,783)	(12,150)

28.2 (Decrease)/increase in funding and other liabilities

	2016	2015
	£'000	£'000
Loans and advances from banks	**-**	(5,000)
Customer deposits	**31,394**	19,608
Other customer accounts	**(15,420)**	36,216
Other liabilities	**(16,560)**	14,831
	(586)	65,655

28.3 Tax paid

	2016	2015
	£'000	£'000
Amounts unpaid at beginning of the year	**(249)**	-
Income tax charge (current tax)	**(438)**	(548)
Amounts unpaid at end of the year	**358**	249
Tax paid	**(329)**	(299)

28.4 Cash and cash equivalents

	2016 £'000	2015 £'000
Cash and balances with central banks (Note 11)	**49,703**	50,014
Placements with banks[1] (Note 12)	**108,656**	133,074
Debt securities (Note 13)	**94,427**	78,114
Cash included in non current assets held for sale (Note 25)	**4,552**	-
	257,338	261,202

[1]Represents loan balances with a maturity of three months or less.

29. Commitments

29.1 Operating lease commitments – Premises

	2016 £'000	2015 £'000
The total of future minimum lease payments under non-cancellable operating leases are payable as follows:		
Within 1 year	**371**	329
After 1 year but within 5 years	**29**	72
	400	401

29.2 Other operational commitments – Information Technology

	2016 £'000	2015 £'000
Commitments expiring:		
Within 1 year	**448**	492
After 1 year but within 5 years	**943**	1,204
	1,391	1,696

30. Contingencies

The Bank is part of the same VAT group as other members of the Lenlyn Group. As such, it has a joint and several liability for any amounts due to HMRC by any of the other entities in this group.

31. Related parties

31.1 Holding company

Lenlyn Holdings Limited, which is incorporated in England, is the Bank's immediate parent undertaking and ultimate controlling related party. Copies of the financial statements for Lenlyn Holdings Limited are available from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ. The largest group of undertakings for which accounts have been drawn up is that headed by Lenlyn Holdings Limited.

31.2 Transaction with Lenlyn Group companies

During the normal course of business the following transactions were undertaken with Lenlyn Group companies during the year:

	2016 £'000	2015 £'000
Profit share paid to ICE for services provided in relation to management, property, hardware and site provision for the Bank's ATM estate	**(6,475)**	(6,077)
Rent and rates paid to Lenlyn Holdings Limited	**(392)**	(364)
Costs incurred in relation to centralised functions performed by Lenlyn Group companies	**(13)**	(367)
Interest and management fees received from Lenlyn Group companies	**224**	224

At the end of the year the following balances were outstanding with Lenlyn Group companies:

	2016 £'000	2015 £'000
Prepayments, accrued income and other debtors	**-**	6
Customer deposits	**239**	234
Other liabilities	**319**	-

The ATM division operates in conjunction with a number of partners, which includes fellow subsidiary ICE. As part of the day to day operations the companies follow an arrangement whereby ICE is responsible for the fill of a number of the ATM machines on behalf of the Bank. During the year under review the Bank reimbursed ICE to the value of £518 million (2015: £349 million).

31.3 Key management compensation

Key management personnel of the Bank comprise the Directors and other members of the Executive Committee. Details of the compensation paid to key management personnel are:

	2016 £'000	2015 £'000
Emoluments	**1,779**	1,619
Pension costs	**68**	55
Total	**1,847**	1,674

31.4 Transactions with key management personnel

The aggregate value of transactions and outstanding balances related to key management personnel were as follows:

Deposits	**2016 £'000**	2015 £'000
Balance outstanding	**464**	459
Transaction values for the year	**5**	9
Maximum balance for the year	**464**	459

The terms of all deposit arrangements have been operated by the Bank on commercial terms and conditions.

During the year an amount of £46k (2015: £46k) was incurred in rent to Turville Estates (UK) limited for the use of a property in Aylesbury. At the balance sheet date, no balance was payable to Turville Estates (UK) Limited (2015: £nil). Ms Anthea Frost who is currently a Director of the Bank is also a Director of Turville Estates (UK) Limited. The rental agreement is based on commercial terms and conditions.

32. Financial risk management

32.1 Introduction and overview

In the course of conducting its business the Bank is exposed to a wide range of financial risks, of which the principal risks are as follows:

- credit risk
- liquidity risk
- market risk
- operational risk
- capital risk management

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

Risk management framework

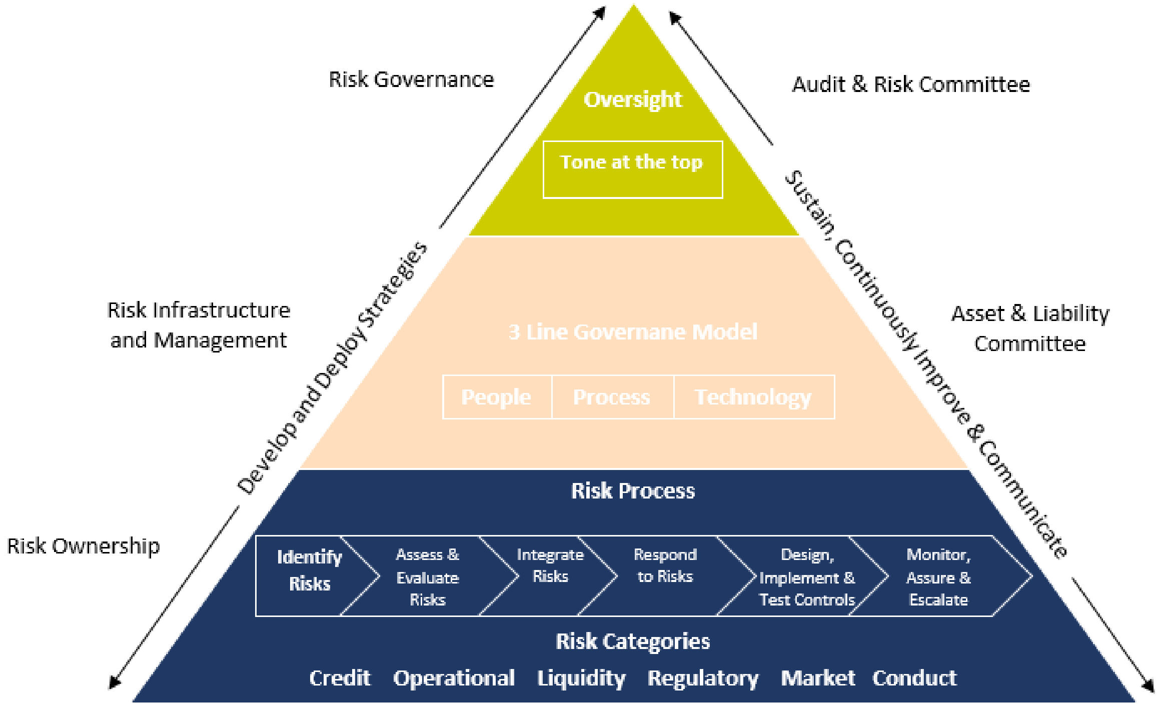
For a number of years the Bank has employed an Enterprise Risk Management Framework ('ERMF') to identify the types and quantum of risks to which it is prepared to be exposed and to determine how those risks are to be mitigated and managed. Some of the key elements of the ERMF are:

- The use of risk appetite and tolerance statements throughout the business;
- The use of risk registers to identify key risks and ensure they are actively monitored and managed;
- The maintenance of up to date policies and procedures, including fully tested business continuity plans; and
- The delegation to various committees of the oversight of how well the Bank manages risk. The main committees in this respect are the Audit & Risk Committee ('ARC'), the Executive Committee ('EXCO') and the Asset & Liability Committee ('ALCO').

Ultimate responsibility for the overall framework and the risk management strategy resides with the Board. All aspects of the ERMF are reviewed, amended (where appropriate) and approved at least annually by the Board to ensure they remain in line with best practice and are consistent with the Bank's strategic objectives. The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls and to monitor adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training, management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The ARC is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the ERMF in relation to the risks faced by the Bank. The committee is assisted in these functions by the Bank's three lines of governance model under which assurance is provided by the risk and compliance functions (the second line) and by internal audit (the third line), which undertakes both regular and ad-hoc reviews of risk management controls and procedures and reports directly to the committee on the results of such reviews.

A schematic of the Bank's ERMF is shown below.



32.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations. The risk arises from the Bank's provision of hire purchase agreements, loans and advances to customers, placing deposits with other banks and holding debt securities. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board delegates day-to-day responsibility for the management of credit risk to the ALCO and EXCO. This includes actively monitoring risk on individual counterparties and groups of interrelated counterparties.

Credit risk exposure

The Bank's maximum exposure to credit risk is set out in the table below:

	2016 £'000	2015 £'000
Balances with central banks	**49,702**	45,732
Loans and advances to banks	**108,656**	133,074
Available for sale investments	**94,427**	78,114
Loans and advances to customers	**25,650**	24,476
Hire purchase agreement receivables	**63,892**	45,430
Prepayments, accrued income and other debtors	**1,091**	10,197
Non current assets classified as held for sale	**6,229**	-
Maximum credit risk exposure	**349,647**	337,023

32.2.1 Loans and advances to banks, debt securities and derivatives held for risk management

The ALCO is responsible for approving counterparties for investment purposes and counterparties with which the Bank may enter into derivative contracts as hedging tools for interest rate risk and/or foreign exchange risk. Limits are placed on the amount of risk accepted in relation to one counterparty or group of counterparties. Exposure is monitored daily.

The process for the selection of counterparties and the approval of limits is governed primarily by the Bank's large exposure policy and its liquidity policy, both of which are reviewed and approved annually by the Board. The ALCO reviews counterparty limits quarterly and recommends changes to such limits as necessary based on ratings assigned by the major credit rating agencies and any other market intelligence available. At least annually, the ARC also reviews and approves all counterparty limits.

In order to qualify as an acceptable counterparty, a financial institution must have a minimum Tier 1 capital of £500 million (or equivalent in currency). Institutions (and all Sovereign risks) must also have a short term prime rating from one or more of the rating agencies. Other unrated counterparties may be added if specific approval is granted by the ALCO.

No transactions can be undertaken with counterparties which do not have a pre-approved limit. The maximum exposure to any individual counterparty or connected group of counterparties is limited to the Bank's total capital.

An analysis of the Bank's inter-bank deposits and its holding of debt securities is shown in the table that follows:

Industry sector	2016 £'000	%	2015 £'000	%
Banks and central banks	**158,358**	**63**	178,806	70
Central Government	**82,206**	**32**	64,815	25
Money market funds	**4,766**	**2**	8,861	3
Supranational	**7,455**	**3**	4,438	2
Total	**252,785**	**100**	256,920	100

The table below sets out information about the credit quality of the inter-bank deposits and debt securities.

	2016 **£'000**	2015 £'000
Balances with banks and central banks	**158,358**	178,806
Rated Aaa	**49,702**	45,732
Rated Aa1 to Aa3	**30,631**	44,953
Rated A1 to A3	**70,451**	80,555
Rated Baa1 to Baa3	**7,574**	7,566
Government and Supranational securities	**94,427**	78,114
Rated Aaa	**58,142**	52,849
Rated Aa1 to Aa3	**36,285**	25,265
	252,785	256,920

As at 29 February 2016 and 28 February 2015 none of these assets were past due or impaired.

32.2.2 Hire purchase agreement receivables and loans and advances to customers

Hire purchase receivables arise predominantly in connection with the financing of motor and other specialised vehicle purchases by individuals. They also include asset finance transactions to SMEs.

Loans and advances to customers are to individuals and (to a much lesser extent) SMEs. The vast majority of such loans and advances are made up of sports season ticket loans, student support loans, medical loans, unsecured personal loans and short-term funding to professional firms such as accountants, solicitors etc. which are introduced to the Bank and administered on its behalf by third party firms. All such advances are written on the Bank's own paper and ultimately the associated credit risk rests with the Bank. However, an important mitigant of the credit risk is the fact that the Bank has an arrangement whereby each third party will buy back outstanding balances on loans they have introduced and where the account has reached a certain level of delinquency: the level of delinquencies at which buy backs occurs varies from partner to partner, but falls within the range of 90-120 days. In the event of any failure of these third parties, the Bank would take over administration of the loans directly. As at 29 February 2016 loans totalling £1,020k (2015: £784k) were past due as reflected in the tables that follow.

29 February 2016	**Neither past due nor impaired £'000**	**Past due but not impaired £'000**	**Impaired £'000**	**Gross exposure £'000**
Loans and advances to customers	**24,630**	**1,020**	**-**	**25,650**
Hire purchase agreement receivables	**61,099**	**-**	**2,793**	**63,892**
Less: allowance for losses incurred not yet identified	**(216)**	**-**	**-**	**(216)**
Less: allowance for identified incurred losses	**-**	**-**	**(1,241)**	**(1,241)**
	85,513	**1,020**	**1,552**	**88,085**

Notes to the Financial Statements (continued)

28 February 2015	**Neither past due nor impaired £'000**	**Past due but not impaired £'000**	**Impaired £'000**	**Gross exposure £'000**
Loans and advances to customers	23,692	784	-	24,476
Hire purchase agreement receivables	43,634	-	1,796	45,430
Less: allowance for losses incurred not yet identified	(124)	-	-	(124)
Less: allowance for identified incurred losses	-	-	(838)	(838)
	67,202	784	958	68,944

The Bank's lending portfolio is exclusively within the UK. The quality of the lending portfolio has remained at an acceptable level as evidenced by the number of accounts in arrears and the associated balances.

Analysis of loans and advances past due but not impaired

	Less than 30 days £'000	**30-59 days £'000**	**60-89 days £'000**	**90-119 days £'000**	**Total £'000**
29 February 2016	**236**	**504**	**183**	**97**	**1,020**
28 February 2015	117	378	177	112	784

Analysis of impaired loans and advances

29 February 2016	**Gross exposure £'000**	**Impairment £'000**	**Net exposure £'000**	**Coverage**
Past due 1 – 2 months	**1,454**	**(396)**	**1,058**	**27%**
Past due 3 – 4 months	**174**	**(76)**	**98**	**44%**
Past due 5 – 6 months	**196**	**(101)**	**95**	**52%**
Past due more than 6 months	**653**	**(406)**	**247**	**62%**
Repossessed loans	**316**	**(262)**	**54**	**83%**
	2,793	**(1,241)**	**1,552**	**44%**

28 February 2015	**Gross exposure £'000**	**Impairment £'000**	**Net exposure £'000**	**Coverage**
Past due 1 – 2 months	898	(244)	654	27%
Past due 3 – 4 months	128	(57)	71	45%
Past due 5 – 6 months	75	(38)	37	51%
Past due more than 6 months	404	(252)	152	62%
Repossessed loans	291	(247)	44	85%
	1,796	(838)	958	47%

In respect of vehicle finance, collateral is provided by the Bank's rights and/or title to the underlying leased assets. The motor finance business typically has a loan to retail value ('LTV') ratio of 80% to 90%. The following table illustrates the extent of collateral and other risk mitigations. In the case of hire purchase agreements the table indicates the vehicle trade-in value as a percentage of the advance, based on data at origination date.

Extent of collateral and risk mitigation at 29 February 2016	**Exposure £'000**	**Unsecured £'000**	**Secured £'000**	**<70% £'000**	**70-90% £'000**	**>90% £'000**
Loans and advances to banks	**108,656**	**108,656**	**-**	**-**	**-**	**-**
Loans and advances to customers	**25,650**	**-**	**25,650**	**-**	**-**	**25,650**
Hire purchase agreement receivables	**62,435**	**-**	**62,435**	**10,022**	**37,271**	**15,142**
	196,741	**108,656**	**88,085**	**10,022**	**37,271**	**40,792**

Extent of collateral and risk mitigation at 28 February 2015	**Exposure £'000**	**Unsecured £'000**	**Secured £'000**	**<70% £'000**	**70-90% £'000**	**>90% £'000**
Loans and advances to banks	133,074	133,074	-	-	-	-
Loans and advances to customers	24,476	-	24,476	-	-	24,476
Hire purchase agreement receivables	44,468	-	44,468	5,318	27,290	11,860
	202,018	133,074	68,944	5,318	27,290	36,336

Forbearance

The Bank maintains a vulnerability policy that details arrangements to be followed in respect of customers who are identified as being vulnerable. In particular, the policy considers the approach to forbearance in cases of customers who are in temporary financial difficulties and consequently unable to meet their original contractual repayment terms. This arrangement is followed for commercial purposes and the delinquency status, and consequently the level of impairment, is not impacted by this policy.

32.3 Liquidity risk

Liquidity risk is the risk that the Bank either does not have available cash or cannot obtain sufficient financial resources to enable it to meet its obligations as they fall due, or only secure such resources at an excessive cost.

The Bank's policy is to maintain liquid assets at all times which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due in the normal course of business. The Bank also maintains a contingency funding plan to ensure that it has so far as is reasonably possible, sufficient liquid resources to meet liabilities as they fall due under a range of severe but plausible stressed scenarios.

The liquidity policy details liquidity risk limits set by the Board and day-to-day responsibility for ensuring these are adhered to rests with the ALCO. The Bank completes an Individual Liquidity Adequacy Assessment Process ('ILAAP') at least annually to assess its compliance with the liquidity systems and control requirements as detailed in the PRA Rulebook.

An important factor supporting the ability of the Bank to raise retail deposits is that all such deposits are covered up to the statutory limit by the Financial Services Compensation Scheme ('FSCS'). Any change to the FSCS could in theory have an impact on the Bank's deposit-raising activities and hence on its liquidity. In this context it is worth noting that although the FSCS limit was reduced during the year under review this had virtually no impact on the Bank's ability to retain deposits or on its ability to raise new funds. In accordance with the relevant EU directive there should be no further reduction in the FSCS limit for the next five years and the risk of any other material changes to the scheme are also considered by the Bank's Board to be remote.

Notes to the Financial Statements (continued)

The tables that follow analyses the Bank's assets and liabilities across maturity periods and reflect the residual maturity from the year end date to the contractual maturity date. The actual repayment profile of other customer accounts is likely to be significantly different to that shown in the analysis.

Residual maturity as at 29 February 2016	On demand £'000	Up to 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	More than 5 years £'000	Undated £'000	Total £'000
Cash and balances with central banks	49,703	-	-	-	-	-	49,703
Loans and advances to banks	105,953	2,703	-	-	-	-	108,656
Available for sale investments	4,766	34,176	71,158	-	-	6,511	116,611
Loans and advances to customers	-	7,402	8,665	9,493	90	-	25,650
Hire purchase agreement receivables	-	6,116	14,046	43,730	-	(1,457)	62,435
Derivative assets	-	-	-	85	-	-	85
Other assets	-	-	-	-	-	2,920	2,920
Assets held for sale	-	-	12,847	-	-	-	12,847
Total assets	160,422	50,397	106,716	53,308	90	7,974	378,907
Customer deposits	390	15,881	52,566	52,462	-	-	121,299
Other customer accounts	183,438	-	-	-	-	-	183,438
Other liabilities	-	-	-	-	-	31,808	31,808
Liabilities held for sale	-	-	671	-	-	-	671
Total liabilities	183,828	15,881	53,237	52,462	-	31,808	337,216

Residual maturity as at 28 February 2015	On demand £'000	Up to 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	More than 5 years £'000	Undated £'000	Total £'000
Cash and balances with central banks	50,014	-	-	-	-	-	50,014
Loans and advances to banks	130,379	2,695	-	-	-	-	133,074
Available for sale investments	8,861	27,360	41,893	-	-	228	78,342
Loans and advances to customers	-	8,926	7,013	8,445	92	-	24,476
Hire purchase agreement receivables	-	4,499	12,168	28,763	-	(962)	44,468
Derivative assets	-	-	-	73	-	-	73
Other assets	-	-	-	-	-	13,877	13,877
Total assets	189,254	43,480	61,074	37,281	92	13,143	344,324
Customer deposits	367	20,659	56,121	12,758	-	-	89,905
Other customer accounts	188,050	-	-	-	-	-	188,050
Other liabilities	-	-	-	-	-	42,889	42,889
Total liabilities	188,417	20,659	56,121	12,758	-	42,889	320,844

The following table represents an analysis of gross contractual cash flows payable under financial liabilities. The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of projected interest flows until maturity, payable on the amounts outstanding at the balance sheet date.

Undiscounted contractual maturity as at 29 February 2016	On demand £'000	Up to 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	More than 5 years £'000	Undated £'000	Total £'000
Customer deposits	**390**	**15,970**	**53,229**	**55,607**	**-**	**-**	**125,196**
Other customer accounts	**183,438**	**-**	**-**	**-**	**-**	**-**	**183,438**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**31,808**	**31,808**
Liabilities held for sale	**-**	**-**	**671**	**-**	**-**	**-**	**671**
Total liabilities	**183,828**	**15,970**	**53,900**	**55,607**	**-**	**31,808**	**341,113**

Undiscounted contractual maturity as at 28 February 2015	On demand £'000	Up to 3 months £'000	3 months to 1 year £'000	1 to 5 years £'000	More than 5 years £'000	Undated £'000	Total £'000
Customer deposits	367	20,790	56,686	13,354	-	-	91,197
Other customer accounts	188,050	-	-	-	-	-	188,050
Other liabilities	-	-	-	-	-	42,889	42,889
Total liabilities	188,417	20,790	56,686	13,354	-	42,889	322,136

32.4 Market risk

32.4.1 Interest rate risk

Interest rate risk is the risk of reductions in income and/or reductions in the fair value of financial instruments arising from unfavourable movements in interest rates.

The Bank is exposed to interest rate risk in the form of changes (or potential changes) in the general level of interest rates, changes in the relationship between short and long-term interest rates and potential divergence in the historical relationship between the interest rates applied to different balance sheet items: this last risk is commonly referred to as basis risk.

Interest rate risk is managed to ensure that it is at all times within the Board approved Risk Appetite. Each week the ALCO receives and considers a range of MI based on a full interest rate gap analysis for the balance sheet. This includes updated weekly stress testing to consider the impact on the Bank of a two percentage point rise in interest rates as well as a review of basis risk. A change of 1 basis point in interest rates would have resulted in a £1k (2015: £6k) change in net interest revenue reported during the year.

The tables that follow summarizes the Bank's exposure to interest rate risk. The Bank has not made use of any derivative financial instruments to manage exposure to interest rate risk in either of the past two years.

The interest rate repricing for loans to banks and available for sale investment securities reflects the proportion of these balances that are interest bearing. Agreements with prepaid card partners mean that a proportion of such interest is shared.

Notes to the Financial Statements (continued)

Interest rate repricing as at 29 February 2016	**Up to 3 months £'000**	**3 months to 1 year £'000**	**1 to 5 years £'000**	**More than 5 years £'000**	**Non interest bearing £'000**	**Total £'000**
Cash and balances with central banks	**49,702**	**-**	**-**	**-**	**1**	**49,703**
Loans and advances to banks	**108,656**	**-**	**-**	**-**	**-**	**108,656**
Available for sale investments	**38,942**	**55,485**	**-**	**-**	**22,184**	**116,611**
Loans and advances to customers	**7,402**	**8,665**	**9,493**	**90**	**-**	**25,650**
Hire purchase agreement receivables	**6,116**	**12,589**	**43,730**	**-**	**-**	**62,435**
Derivative assets	**-**	**-**	**-**	**-**	**85**	**85**
Other assets	**-**	**-**	**-**	**-**	**2,920**	**2,920**
Assets held for sale	**-**	**-**	**-**	**-**	**12,847**	**12,847**
Total assets	**210,818**	**76,739**	**53,223**	**90**	**38,037**	**378,907**
Customer deposits	**16,271**	**52,566**	**52,462**	**-**	**-**	**121,299**
Other customer accounts	**-**	**-**	**-**	**-**	**183,438**	**183,438**
Other liabilities	**-**	**-**	**-**	**-**	**31,808**	**31,808**
Liabilities held for sale	**-**	**-**	**-**	**-**	**671**	**671**
Shareholder funds	**-**	**-**	**-**	**-**	**41,691**	**41,691**
Total liabilities and equity	**16,271**	**52,566**	**52,462**	**-**	**257,608**	**378,907**
Interest rate sensitivity gap	**194,547**	**24,173**	**761**	**90**	**(219,571)**	
Cumulative gap	**194,547**	**218,720**	**219,481**	**219,571**	**-**	

Interest rate repricing as at 28 February 2015	**Up to 3 months £'000**	**3 months to 1 year £'000**	**1 to 5 years £'000**	**More than 5 years £'000**	**Non interest bearing £'000**	**Total £'000**
Cash and balances with central banks	45,732	-	-	-	4,282	50,014
Loans and advances to banks	133,074	-	-	-	-	133,074
Available for sale investments	36,221	41,893	-	-	228	78,342
Loans and advances to customers	8,926	7,013	8,445	92	-	24,476
Hire purchase agreement receivables	4,499	11,206	28,763	-	-	44,468
Derivative assets	-	-	-	-	73	73
Other assets	-	-	-	-	13,877	13,877
Total assets	228,452	60,112	37,208	92	18,460	344,324
Customer deposits	21,026	56,121	12,758	-	-	89,905
Other customer accounts	-	-	-	-	188,050	188,050
Other liabilities	-	-	-	-	42,889	42,889
Shareholder funds	-	-	-	-	23,480	23,480
Total liabilities and equity	21,026	56,121	12,758	-	254,419	344,324
Interest rate sensitivity gap	207,426	3,991	24,450	92	(235,959)	
Cumulative gap	207,426	211,417	235,867	235,959	-	

32.4.2 Foreign exchange risk

Foreign exchange risk is the risk that the value of, or net income arising from, assets and liabilities changes as a result of movements in exchange rates. The Bank manages foreign exchange risk to ensure that it is at all times within the Board-approved risk appetite. It is monitored weekly by the ALCO.

Traditionally the principal area of the Bank's business where foreign exchange risk arises is within the ATM division. This is because Euro and US Dollar notes are held in ATMs prior to them being dispensed and that for certain transactions the Bank receives settlement in a different currency to that of the original transaction. During the year under review the Board took the decision to partly manage the foreign exchange risk within ATMs by the use of a derivative instrument.

At the reporting date the Bank is also exposed to significant foreign exchange risk on its Visa Europe shareholding, which is denominated in Euro and results in a large net Euro position at 29 February 2016.

While a large proportion of Payment Services' cardholder liabilities are in currencies other than sterling, the corresponding bank balance or investment in debt securities is in the same currency. This provides for a matched position and is the key means by which foreign exchange risk within the division is mitigated: the division is exposed to some other foreign exchange risk because on certain programmes it receives income in Euros, but this is not considered to be material.

The table below sets out the Bank's exposure to foreign exchange risk at the reporting date.

Net foreign exchange exposure at 29 February 2016	**Sterling £'000**	**Euro £'000**	**US Dollar £'000**	**Other £'000**	**Total £'000**
Cash and balances with central banks	**49,703**	**-**	**-**	**-**	**49,703**
Loans and advances to banks	**25,844**	**57,613**	**9,991**	**15,208**	**108,656**
Available for sale investments	**22,512**	**58,553**	**28,320**	**7,226**	**116,611**
Loans and advances to customers	**25,650**	**-**	**-**	**-**	**25,650**
Hire purchase agreement receivables	**62,435**	**-**	**-**	**-**	**62,435**
Derivative assets	**85**	**-**	**-**	**-**	**85**
Net assets and liabilities held for sale	**10,379**	**1,769**	**28**	**-**	**12,176**
Customer deposits	**(121,299)**	**-**	**-**	**-**	**(121,299)**
Other customer accounts	**(41,349)**	**(87,687)**	**(35,404)**	**(18,998)**	**(183,438)**
Net other assets/(other liabilities)	**(17,409)**	**(5,282)**	**(2,851)**	**(3,346)**	**(28,888)**
Net position	**16,551**	**24,966**	**84**	**90**	**41,691**

Net foreign exchange exposure at 28 February 2015	**Sterling £'000**	**Euro £'000**	**US Dollar £'000**	**Other £'000**	**Total £'000**
Cash and balances with central banks	48,836	1,160	18	-	50,014
Loans and advances to banks	26,810	88,096	7,687	10,481	133,074
Available for sale investments	23,406	21,195	28,468	5,273	78,342
Loans and advances to customers	24,476	-	-	-	24,476
Hire purchase agreement receivables	44,468	-	-	-	44,468
Derivative assets	73	-	-	-	73
Customer deposits	(89,905)	-	-	-	(89,905)
Other customer accounts	(47,741)	(90,910)	(33,802)	(15,597)	(188,050)
Net other assets/(other liabilities)	(9,700)	(16,880)	(2,324)	(108)	(29,012)
Net position	20,723	2,661	47	49	23,480

Foreign exchange Sensitivity

The Bank estimates that a 5% movement in exchange rates would impact the results as follows:

Effect on profit before tax	**2016 £'000**	2015 £'000
Euro		
5% shift up in exchange rate	**(134)**	(127)
5% shift down in exchange rate	**148**	140
USD		
5% shift up in exchange rate	**(4)**	(2)
5% shift down in exchange rate	**4**	2

Effect on other comprehensive income before tax	**2016 £'000**	2015 £'000
Euro		
5% shift up in exchange rate	**(1,055)**	-
5% shift down in exchange rate	**1,166**	-

32.5 Operational risk (unaudited)

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events arising from day-to-day operating activities.

The Bank seeks to mitigate this risk through a variety of measures including maintaining up-to-date policies and procedures for all key internal processes, ensuring its staff receive ongoing training, investing in appropriate systems, having documented and tested business continuity plans and, wherever possible, ensuring that it has a diversified spread of counterparties, business partners and suppliers. The EXCO is the Bank's principal forum for monitoring operational risk which it does through a variety of means including the use of risk registers, operational loss databases, control self-assessments and regular reviews of operational divisions and functional areas by compliance and internal audit.

For the past two years the Bank has considered conduct risk as a specific sub-set of operational risk. The Bank defines conduct risk as ''the risk that, through the Bank's actions or inactions, one or more of its products and services fail to deliver fair outcomes to its customers''. The conduct risk governance framework mirrors other aspects of the Bank's ERMF and is actively managed at all levels within the Bank through training, the establishment of risk appetite and tolerances and the use of appropriate Key Risk Indicators ('KRI') and other management information.

The Bank has recently taken the decision to separate out conduct risk completely from operational risk. This is intended to help ensure that conduct risk continues to receive the appropriate level of oversight and in recognition of the high importance placed on it by the Board.

32.6 Capital risk and management

It is the Bank's policy to maintain capital resources above the minimum required by the PRA and to maintain appropriate capital buffers as required under Capital Requirements Directive. The primary means of achieving this is by ensuring that it generates sufficient levels of profits and that an appropriate amount of such profits is retained and added to reserves.

At least annually the Bank undertakes an Internal Capital Adequacy Assessment Plan ('ICAAP') which is reviewed and adopted by the Board. The primary objective of the ICAAP is to evidence that the Bank's capital resources are sufficient to enable it to achieve its strategic objectives under normal market conditions but also that it has sufficient capital to survive periods of stress.

The ICAAP process involves reviewing all risks to which the Bank is exposed or potentially could be exposed and making an assessment of the capital required to mitigate the potential impact of those risks down to a level that is consistent with the Board-approved risk appetite and in accordance with regulatory requirements. An integral part of the process is to subject the Bank's base case forecasts for the next five years to a range of stresses. Such stresses will consider events that might be only specific to the Bank, events that have a more market-wide impact and a combination of both types of events. Stress testing also includes combining several individual tests together to create extreme but plausible adverse scenarios that could impact the Bank. The final part of the process is to identify what management actions might be possible to mitigate any impact on the Bank, and the time it might take to return to more normal operating conditions.

To help assess the ongoing adequacy of capital, the Bank has established an overall appetite for each of the main risks to which it is exposed and established tolerances for each such risk, within which the Bank is expected to operate. Furthermore each operating division of the Bank has its own more detailed risk tolerances that are consistent with those established for the Bank overall. The Bank's performance against these tolerances is monitored regularly at divisional level and reviewed at least monthly by the EXCO and the Board.

The following reflects the regulatory capital resources managed by the Bank:

	2016 **£'000**	2015 £'000
Share capital	**13,600**	13,600
Share premium	**900**	900
Retained Earnings	**9,427**	8,987
Available for sale reserve	**17,764**	(7)
Deduct: Investments	**(13,595)**	(228)
Deduct: Deferred tax asset	**-**	(195)
Common equity tier 1 capital	**28,096**	23,057
Credit impairment allowance against loans incurred not yet identified	**216**	124
Total regulatory capital	**28,312**	23,181

33. Post balance sheet events

Disposal of ATM business unit

As the result of a strategic review, the Bank determined that it wanted to exit the ATM business and accordingly the Bank signed an agreement on 1 April 2016 to sell its ATM business to a subsidiary of International Currency Exchange Limited. The sale is expected to complete in 2016. The Bank does not anticipate making a material profit or loss on this arrangement.

34. Transition to IFRS

This is the first year that the Bank has presented its financial statements under International Financial Reporting Standards ('IFRS') and the following disclosures are required in the year of transition. The last set of financial statements under previous UK GAAP were for the year ended 28 February 2015 and the date of transition to IFRS was 1 March 2014. As a consequence of adopting IFRS, a number of accounting policies have changed in order to comply with IFRS. Significant changes include:

Debt and equity securities available for sale
IAS 39 requires all assets and liabilities to be classified as either loans and receivables, available for sale, fair value through profit or loss or held to maturity. All debt securities and equity investments, other than investments in subsidiary, have been classified as available for sale and are valued at fair value with all movements in fair value taken to a separate available for sale reserve.

Effective interest rate
Under IAS 39, interest on assets and liabilities held at amortised cost is recognised in the Income Statement on an Effective Interest Rate (EIR) basis. All upfront fees and external costs associated with the origination of the instrument are included in the EIR and spread over the average life of the instrument.

Impairment losses
Under IFRS, impairment losses represent the difference between the present value of expected future cash flows, discounted at the original EIR, and the outstanding balance at reporting date.

Derivative instruments
Under IFRS, all derivative contracts entered into by the Bank are recorded in the balance sheet at fair value, with changes in the fair value recognised immediately in the income statement.

Intangible assets
Under IFRS, computer software is treated as an intangible asset.

34.1 Balance sheet at 1 March 2014

	Note	UK GAAP balance sheet £'000	Available for sale adjustment £'000	EIR adjustment £'000	Credit impairments and other adjustments £'000	IFRS balance sheet £'000
Assets						
Cash and balances with central banks		20,930	-	-	-	20,930
Loans and advances to banks		145,304	-	-	-	145,304
Available for sale investments	A	46,617	(23)	-	-	46,594
Loans and advances to customers		22,096	-	-	-	22,096
Hire purchase agreement receivables	B,C	33,807	-	1,160	68	35,035
Derivative assets	D	-	-	-	65	65
Prepayments, accrued income and other debtors	B	11,835	-	(1,445)	-	10,390
Deferred tax asset	A,B,C,D	87	2	59	(27)	121
Property, plant and equipment	E	3,798	-	-	(700)	3,098
Intangible assets	E	-	-	-	700	700
Total assets		284,474	(21)	(226)	106	284,333
Liabilities						
Loans and advances from banks		5,000	-	-	-	5,000
Customer deposits		70,297	-	-	-	70,297
Other customer accounts		157,746	-	-	-	157,746
Current tax liability		-	-	-	-	-
Other liabilities	A	29,262	(15)	-	-	29,247
Total liabilities		262,305	(15)	-	-	262,290
Equity						
Share capital		13,600			-	13,600
Share premium		900			-	900
Reserves	A,B,C,D	7,669	(6)	(226)	106	7,543
Total equity		22,169	(6)	(226)	106	22,043
Total liabilities and equity		284,474	(21)	(226)	106	284,333

Notes to the Financial Statements (continued)

34.2 Balance sheet at 28 February 2015

	Note	UK GAAP balance sheet £'000	Available for sale adjustment £'000	EIR adjustment £'000	Credit impairments and other adjustments £'000	IFRS balance sheet £'000
Assets						
Cash and balances with central banks		50,014	-	-	-	50,014
Loans and advances to banks		133,074	-	-	-	133,074
Available for sale investments	A	77,899	443	-	-	78,342
Loans and advances to customers		24,476	-	-	-	24,476
Hire purchase agreement receivables	B,C	42,610	-	1,900	(42)	44,468
Derivative assets	D	-	-	-	73	73
Prepayments, accrued income and other debtors	A,B	12,741	(325)	(2,219)	4	10,201
Deferred tax asset	A,B,C,D	137	1	66	(9)	195
Property, plant and equipment	E	3,481	-	-	(717)	2,764
Intangible assets	E	-	-	-	717	717
Total assets		344,432	119	(253)	26	344,324
Liabilities						
Customer deposits		89,905	-	-	-	89,905
Other customer accounts		188,050	-	-	-	188,050
Current tax liability		249	-	-	-	249
Other liabilities	A	42,518	122	-	-	42,640
Total liabilities		320,722	122	-	-	320,844
Equity						
Share capital		13,600	-	-	-	13,600
Share premium		900	-	-	-	900
Reserves	A,B,C,D	9,210	(3)	(253)	26	8,980
Total equity		23,710	(3)	(253)	26	23,480
Total liabilities and equity		344,432	119	(253)	26	344,324

34.3 Income statement for the year ended 28 February 2015

	Note	UK GAAP £'000	Available for sale adjustment £'000	EIR adjustment £'000	Credit impairments and other adjustments £'000	IFRS[1] £'000
Net interest income		6,558	3	(280)	-	6,281
Interest income	A,B	8,789	3	(280)	-	8,512
Interest expense		(2,231)	-	-	-	(2,231)
Non-interest revenue		15,994	-	246	(50)	16,190
Fee and commission income	B	11,715	-	(1,040)	-	10,675
Fee and commission expense	B	(6,081)	-	1,286	-	(4,795)
Other income/(loss)	D	10,360	-	-	(50)	10,310
Total operating income		22,552	3	(34)	(50)	22,471
Operating expenses		(20,265)	-	-	61	(20,204)
Operating profit before impairment losses		2,287	3	(34)	11	2,267
Credit impairment charge	C	(248)	-	-	(109)	(357)
Profit before taxation		2,039	3	(34)	(98)	1,910
Income tax charge	A,B,C,D	(498)	(1)	7	18	(474)
Profit attributable to equity shareholders		1,541	2	(27)	(80)	1,436

[1]Represents the restated result on conversion to IFRS. This excludes the current year's application of IFRS 5 as described in Note 24.

34.4 Statement of other comprehensive income for the year ended 28 February 2015

	Note	UK GAAP £'000	Available for sale adjustment £'000	EIR adjustment £'000	Credit impairments and other adjustments £'000	IFRS[1] £'000
Profit attributable to equity shareholders		1,541	2	(27)	(80)	1,436
Net change in fair value of available for sale investments	A	-	1	-	-	1
Related tax		-	-	-	-	-
Total comprehensive income attributable to the equity shareholders		1,541	3	(27)	(80)	1,437

34.5 Statement of changes in equity at 28 February 2014 and 28 February 2015

Reconciliation of reserves at 28 February 2014	*Note*	Available for sale reserve £'000	Retained earnings £'000	Total reserves £'000
At 28 February 2014 under UK GAAP		-	7,669	7,669
Available for sale adjustment	A	(8)	2	(6)
EIR adjustment	B		(226)	(226)
Credit impairments adjustment	C		54	54
Derivative instruments adjustment	D		52	52
At 28 February 2014 under IFRS		(8)	7,551	7,543

Reconciliation of reserves at 28 February 2015	*Note*	Available for sale reserve £'000	Retained earnings £'000	Total reserves £'000
At 28 February 2015 under UK GAAP		-	9,210	9,210
Available for sale adjustment	A	(7)	4	(3)
EIR adjustment	B		(253)	(253)
Credit impairments adjustment	C		(32)	(32)
Derivative instruments adjustment	D		58	58
At 28 February 2015 under IFRS		(7)	8,987	8,980

34.6 Summary of significant UK GAAP to IFRS adjustments

The following is a summary of the main differences between UK GAAP and IFRS applicable to the Bank:

(A) Debt and equity securities — Under IFRS the Bank classifies debt and equity securities as available for sale investments. These assets are recognised in the balance sheet at fair value with any changes in fair value recognised through the statement of other comprehensive income and held within reserves, in a specific available for sale reserve. The adjustment relates to the difference between the cost of acquiring the securities, adjusted for amortisation, and fair value at the reporting date.

(B) Effective interest rate — In terms of IFRS, transaction costs directly attributable to the origination of financial assets are included in the initial measurement and carrying value of the assets. Income is recognised in the income statement on an effective interest rate (EIR) basis over the estimated average lives of the instruments taking into account the interest rates charged, the upfront fees received and external costs incurred. The effective interest rate is the rate that exactly discounts the estimated stream of future cash payments or receipts, over the expected life of the instrument to the net carrying amount on initial recognition. This adjustment reflects the change in the recognition of the income on the instruments from an accruals basis to an effective interest rate basis.

(C) Impairment of financial assets — Under IFRS the impairment assessment estimates the expected future cash flows from the group of assets, which are then discounted at the loan portfolio's original effective interest rate. An impairment provision is raised when the discounted expected cashflows are less than the carrying value. The adjustment reflects the change in methodology following the implementation of IFRS.

(D) Derivative instruments — Under IFRS derivative instruments are recorded in the balance sheet at fair value with changes in the fair value being recognised immediately in the income statement. The Bank has an equity option to subscribe for ordinary shares in an unlisted lending partner company and a foreign exchange call option. The options have been recognised at fair value.

(E) Intangible assets — Under UK GAAP, capitalised software costs were included within tangible fixed assets. Under IFRS, software has been reclassified and is now treated as an intangible asset, unless it is an integral part of the associated hardware.

(F) Effect of IFRS adoption for statement of cash flows — The change in cash and cash equivalents was due to fair value adjustments recognised on debt securities. The adjustments to cash flows from operating activities and investing activities were mostly due to foreign exchange movements, which are excluded from the cash flow statement as presented in terms of IFRS.

35. Country-by-country reporting

Article 89 of the Capital Requirements Directive IV requires credit institutions and investments firms in the EU to disclose annually, specifying by Member State and third country in which it has an establishment, the following information for the year: name, nature of activities, geographical location, turnover, number of employees, profit before tax, corporation tax paid and public subsidies received.

The principal activity of the Bank is the provision of financial services as described in the Strategic report. Average employee numbers are disclosed in Note 8.1.

United Kingdom	2016 £'000	2015 £'000
Turnover	**19,188**	22,471
- Continuing operations (Note 4)	**11,444**	9,350
- Discontinued operations (Note 4)	**7,744**	13,121
Profit/(loss) before tax	**1,029**	1,910
- Continuing operations (Note 4)	**(805)**	271
- Discontinued operations (Note 4)	**1,834**	1,639
Corporation tax paid (Note 28.3)	**329**	299

Turnover consists of net interest income, net fees and commissions received or paid and other income.

No public subsidies were received by the Bank.