



MANX FINANCIAL
GROUP PLC

ANNUAL REPORT 2009

Welcome to Manx Financial Group PLC

Integrity through innovation and independence

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

Who we are



Manx Financial Group PLC ("MFG") (formerly Conister Financial Group PLC ("CFG")) was formed as part of a "Scheme of Arrangement" in January 2008 to establish a parent company for Conister Bank Limited (formerly Conister Trust Limited) and TransSend Holdings Limited. MFG is listed on the Alternative Investment Market ("AIM").

The shares of Conister Bank were one of the first companies to be admitted to trading on the AIM in 1995 and as part of the "Scheme of Arrangement", the shares were replaced on AIM by those of Manx Financial Group PLC.

Conister Bank Limited (formerly Conister Trust Limited) ("the Bank") is a licensed, independent bank in the Isle of Man and a full member of the MasterCard® network.

Since its inception in 1935, the Bank has assisted successive generations to achieve their financial goals by providing a variety of financial products and services, including taking deposits and the provision of credit facilities and asset finance for personal and business use.

The Bank has also diversified into the insurance premium finance market and fiduciary deposits for corporate and high net worth clients and, through Conister Wealth, provides independent financial advice on a range of life assurance, pension and investment products to both personal and business customers.

Conister Card Services (formerly TransSend) is the Group's prepaid card division. Conister Card Services provides business clients with payment solutions that easily integrate into their existing payment process to produce highly controllable, cost-effective ways of moving funds and create new revenue opportunities.

The division is now positioned as a prepaid card issuer in order to leverage the strengths of the existing group, and has recently built further strategic alliances to maximise distribution channels and revenues.

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Tower of Refuge, Conister Rock, Douglas Bay, Isle of Man.

Financial Highlights

MFG, the Holding Company:

- ⊙ The Group's financial performance improved as its loss was reduced to £2.6 million (2008: £18.3 million) an improvement of £15.7 million. Excluding the ESS transaction the underlying result has improved by £6.1 million compared to last year.
- ⊙ The trend towards consolidated profitability continues with the loss reducing in the second half of 2009 to £0.8 million (2008: £15.3 million) from £1.8 million in the first half of 2009 (2008: £3.0 million).
- ⊙ The Group's cost base reduced by £6.7 million year on year, the equivalent of a 42% decrease.
- ⊙ The cost of the holding company excluding impairments reduced to £1.2 million (2008: £3.4 million), a 65% reduction year on year.
- ⊙ The Group successfully secured £1.22 million of supplementary capital in February 2010 to facilitate new lending opportunities.

Conister Bank Limited:

- ⊙ Despite the worsening economic climate the Bank's financial performance from continuing operations was a reduced loss of £1.2 million (2008: £1.3 million) a 7.7% improvement.
- ⊙ The trend back towards profitability continued with the second half loss reducing to £0.5 million (2008: £1.2 million) from £0.7 million in the first half of 2009 (2008: £0.1 million).
- ⊙ The Bank's cost base reduced by £1.5 million year on year, 18%.
- ⊙ The Bank's capital position has improved year on year with the Risk Asset Ratio remaining stable at 18% and with Tier 1 capital, having adopted BASEL II reporting criteria, increasing to 20.9% (2008: 15.6% under BASEL I).
- ⊙ Substantial liquidity surplus to regulatory requirements, £10.7 million (2008: £10.1 million).
- ⊙ The year end litigation funding net asset, a business segment in run off, has reduced by 87% to £0.2 million (2008: £1.5 million).
- ⊙ The Bank has no exposure to the sub-prime sector or to mortgages.
- ⊙ The Bank has no wholesale funding and has a loan book which matches the duration of the depositors' terms.

Conister Card Services:

- ⊙ Financial performance greatly improved as the loss was significantly reduced to £0.4 million (2008: £3.5 million) as the change in strategy started to impact positively on the income statement.
- ⊙ In the second half of 2009 the business recorded a profit of £0.1 million (2008: loss of £1.9 million).
- ⊙ Conister Card Services cost base reduced by £3.0 million, 72%, year on year. The number of active cards issued has increased to 73,150 (2008: 34,729) an increase of 111%.

Operational Highlights

- ⊙ The Bank has successfully installed a new banking system on time and under budget.
- ⊙ The risk & compliance team has been strengthened to facilitate increased risk monitoring and reporting, and to support the new business lines established in 2009.
- ⊙ The Bank's recent rebranding to more fully represent the services now provided has been an acclaimed success.
- ⊙ The Bank has successfully commenced its Wealth and General Insurance businesses in 2009.
- ⊙ Conister Card Services has completed its repositioning within the prepaid card market becoming a BIN sponsor.



James Mellon
Chairman

Introduction

The final quarter of 2009 has shown signs that the global macroeconomic environment is stabilising; however, we remain in a period of high economic uncertainty. The US economy has emerged from recession in the third quarter and the UK has shown signs of improvement and recently exited recession. Inflation remains modest and the consensus amongst UK, US and Continental Europe commentators is that interest rates will not rise in the near term.

Quantitative easing programmes by central banks are likely to continue, or at least not be withdrawn, in an effort to support the recovery during its initial stages, furthermore there remains a need to support the main banks. Whilst this unprecedented and massive liquidity injection has stimulated demand for financial assets and saved some banks from collapse, it appears not to have stimulated consumer demand to any great extent.

Much of the recovery in industrial production has not been a result of stronger consumer demand, as consumers worry about rising unemployment and taxes, and continue to reduce their indebtedness rather than increase spending. In other words, in the UK and in the Isle of Man the savings rate has risen markedly.

The Group continues to be well insulated against the pressures of the economic environment due to its core focus on the Isle of Man, a market which has avoided the severe recessions experienced by its near neighbours and also, by avoiding any exposure to wholesale money markets, the property market and sub-prime loans.

The macro environment has had two key effects on the Group however, which are worth noting: 1. Default rates remain extremely low, and we remain more than adequately provisioned for loan impairments. 2. As the savings rates rise, people are less keen to take on debt which makes it harder to grow our loan book, which is our key objective. The last point is being addressed and with increased capital we are taking advantage of lending opportunities of the highest quality.

We have experienced none of the severe systemic issues suffered by the major banks and today our capital ratios remain exceptionally high.

Manx Financial Group

During 2009 the Group changed its name to better reflect its heritage and roots, to the Manx Financial Group PLC, an important part in the evolution to a financial services company. The Group's financial performance continues to improve with the loss reduced to £2.6 million (2008: £18.3 million), an improvement of £15.7 million (£6.1 million excluding the ESS transaction) with a positive trend towards profitability as the second half's financial performance was £1.0 million ahead of the first half of 2009 and £12.3 million ahead of the corresponding period in 2008.

Also in 2009 the Group undertook a balance sheet efficiency review resulting in the bank commencing a strategy to reconnect the historical disconnection between its lending and how it was funded. As a result our deposit balance has reduced to £49.5 million

(2008: £66.1 million) which more closely matches our advanced balances. This reconnection will improve the financial performance of the Group through reducing its cost of funds and it will more efficiently use its surplus liquidity which stood at £10.7 million (2008: £10.1 million) at the year end.

The trend in improving profitability is projected to increase steadily and I am very confident of the outturn in the next few years.

The Board and Executive have now established one of the strongest banks, with about as clean a balance sheet as any bank could hope for. There are no hidden liabilities lurking in any part of our business and confidence is very high.

In January 2010, following a successful EGM where all resolutions were approved by the Shareholders in accordance with the Company's Memorandum and Articles of Association, a convertible bond was issued to support new lending opportunities. It is the Board's current intention to raise further capital this year through a general offer for subscription to all Shareholders to fund further new lending opportunities and I hope you will take up this opportunity to support the continued development of the Group. A further announcement will be made in this regard if and when the details of the offer are finalised by the Board.

The Group continues to review opportunities to grow through the acquisition of businesses that complement the Bank or businesses that would benefit from being part of a Group that owns a Bank. However, whilst the current economic environment presents opportunities we are determined to ensure that we make decisions based on sound financial assessment and robust business due diligence. We shall not acquire just for the sake of growth if the business does not fit with our strategic vision.

Conister Bank

The Bank's capital has remained steady with a Risk Asset Ratio of 17.9% (2008: 17.6%) and a Tier 1 capital ratio of 20.9%. The Bank has maintained a liquidity position in excess of its regulatory requirements, driven by a higher number of customers reinvesting maturing deposits than anticipated. This provides evidence of the support the Bank enjoys from its core retail customers and has resulted in the Bank not being required to compete for expensive retail deposits during 2009 resulting in an improved margin position.

The Bank's financial performance also improved in 2009 with the loss reducing to £1.2 million (2008: £1.3 million).

I continue to oversee the work of the executive team resulting in improved processes and controls and this remains a focus of the Board.

The Risk & Compliance team has been strengthened accordingly to facilitate increased risk monitoring and reporting and further develop operational processes and controls.

Two years ago, with the onset of the global downturn, the Bank tightened its underwriting criteria and this has manifested itself in near static provisioning levels for asset financing in 2009.

There has also been significant progress in resolving the outstanding issues associated with the discontinued litigation funding business stream with net assets at the year end reduced by 87% to £0.2 million (2008: £1.5 million) and we can now foresee a successful conclusion to this book.

Conister Card Services

The repositioning of this business in 2009 from a Programme Manager to that of a BIN sponsor is now complete and the financial improvement forecast from this strategic change has become evident in the year end results. The loss for the year was reduced to £0.4 million (2008: £3.5 million) and indeed the cards business made a small profit in the second half of 2009. The business continues to look for new programme managers with profitable contracts and ways to leverage the Bank's MasterCard® licence.

Our People

I continue to be impressed by the commitment and dedication of our staff to the Group and to its customers and I thank them for all their continued effort during 2009. I am pleased to welcome Nick Sheard (Head of Risk and Compliance) and Douglas Grant (Group Finance Director) to the Board in September 2009 and January 2010 respectively, both of whom bring valuable experience and skills.

Outlook

Market conditions appear to be improving, and if the global economy can avoid any unforeseen shocks, the outlook for your Company is very good over the next cycle.

The withdrawal of major banking groups from our core lending market and the increased criteria and demands made by others that have suffered from, sometimes, unconnected losses presents a significant opportunity. We will continue to work to seek out new business opportunities and partners to distribute our products to a wider audience and take advantage of the opportunities this presents.

Conister Bank will continue as the Isle of Man's only independent bank and will continue to leverage its unique position, in what is its 75th anniversary year, through the provision of straightforward products to strengthen and lengthen the customer relationship.

Conister Card Services will continue to exploit the Bank's MasterCard® membership and seek out new opportunities and take advantage of strategic opportunities as the market consolidates and grows.

The Bank's balance sheet remains strong with no debt or toxic assets. This together with the Board and Executives will drive forward the business based on a stable and sound platform ably assisted by an enthusiastic, motivated and customer focused team.

I would like to take this opportunity to again thank our staff and our Shareholders for their support throughout the year.

AGM Resolutions

As always the Board would recommend the shareholders consider and support the resolutions laid before them at the AGM.

James Mellon

Executive Chairman

30 April 2010



Denham Eke
Chief Executive Officer

Manx Financial Group — the Holding Company

In my 2008 report I stated that our goal was to build upon the strong foundations that had been laid and make a steady return to profitability. I am pleased to report that significant progress has been made with the Group meeting all of our internal business and financial objectives. The Group's financial performance for the year was much improved with the loss reducing to £2.6 million (2008: £18.3 million), an improvement of £15.7 million, and the operational result, excluding the ESS share transaction, was an improvement of £6.1 million. I am pleased to report a steadily improving financial performance with the loss in the second half of the year cut to £0.8 million (2008: £15.3 million) which was £1.0 million and £2.2 million ahead of the first half of 2009 and the first half of 2008 respectively.

As part of our balance sheet review the Board started to correct the mismatch between lending returns and cost of funds which has historically had a negative impact on the income statement through the expense of carrying surplus deposits. With the uncertain economic environment the Board planned for a decrease in lending during 2009 and therefore took the necessary steps to more closely align deposit balances with lending expectations. Also throughout 2009, the Bank historically carried high liquidity which enabled it to comfortably absorb the shocks suffered by the rest of the global banking system and meet the possibility of increased customer withdrawal requests, although this was subsequently found to have been unnecessary.

This action has resulted in a step change to the Group's asset base and, looking forward, the forecasted increase in lending will be initially absorbed by utilising some of the Bank's surplus liquidity and then through increasing deposit balances. These actions have and will continue to improve the income statement. Capitalising on the Bank's Isle of Man heritage and independence is a cornerstone of our strategy and in the third quarter of 2009 we rebranded and launched as Conister Bank with a focus on clearly communicating the Bank's primary product propositions and repositioning the Bank as the Island's only independent Bank. This has been a great success. We also rebranded the Manx Financial Group and re-launched the new corporate website early in 2010.

In the current uncertain and changeable economic environment the Bank will continue to focus on our core competencies and has made significant appointments in Marketing, Wealth Management and Customer Services to ensure that we build a strong and stable platform with an experienced management team to deliver future growth. The successful implementation of a new Banking Platform was delivered on time and under budget giving the Bank a market leading platform to further enhance customer service.

The Risk and Compliance team was restructured during 2009 to enable support for business lines such as Wealth Management as well as providing greater support for the core businesses of Asset Finance and Deposits. A new Executive Risk Committee was established to coordinate a coherent risk management framework

which has resulted in a greater focus at Board level on key risk issues. Treasury management has improved significantly with surplus cash being invested in capital efficient instruments to effectively manage excess liquidity and the Bank's risk asset ratio.

I have continued our focus on cost reduction and I am pleased to report that significant savings, in the order of £6.7 million, have been made without significant job losses.

Conister Bank — Banking

Despite the poor trading conditions, financial performance for the year improved by £0.1 million leading to a loss of £1.2 million (2008: -£1.3 million). The Bank's trend back to profitability continued with the results for the second half of 2009, a reduced loss of £0.5 million (2008: -£1.2 million), from £0.7m in the first half of 2009, (2008: -£0.1 million).

The Bank has introduced new income streams to reduce its reliance on net interest income but also to grow the products that it can offer customers in order to provide an alternative to the offerings of the major banking groups. The Bank commenced the sale of Guaranteed Asset Protection and Payment Protection products during 2009 to provide added security for customers, and also launched "Solo", a packaged finance/GAP product initially through the Isle of Man Car dealer network.

One of our most important strengths is our staff, who work and live in the same communities as the majority of our customers. This gives us an intimacy that centralised international banking groups cannot offer. The launch of the Bank's Wealth Management proposition, Conister Wealth, towards the end of 2009, has been well received by both old and new customers alike and after only a few weeks of trading, assets under influence exceeded £2.5 million.

The Bank's deposit customers have continued to show confidence in the bank with reinvestment rates from maturing customers regularly exceeding 70% which has meant the Bank has carried surplus liquidity throughout 2009. Cash balances stood at £18.0 million (2008: £20.6 million). Consequently, the Bank has not had to compete for expensive retail deposits in 2009 and has reduced deposit rates accordingly.

The Bank has no exposure to wholesale funding and has utilised its surplus liquidity to improve capital management by using UK Government Treasury Bills as an alternative to bank deposits to reduce further risk weighted assets. Unfortunately one consequence of the UK government's quantitative easing programme has been to depress the return the Bank can achieve on such liquid assets.

The loan book has performed well with arrears remaining flat year on year, providing evidence to support the Bank's decision to tighten lending criteria as the "credit crunch" hit in the latter half of 2008. However, we continue to work closely with our customers during this difficult economic environment. Margins have improved throughout 2009 in line with the falling cost of deposits.

As part of my continuing review of operations, we reduced our Premium Finance lending through 2009 and also withdrew from Military Lending. The reduction in Premium Finance lending has reduced the Bank's exposure to this business line. This was, effectively, an outsourced operation and our enhanced risk management process had identified a number of operational deficiencies that needed to be addressed. Military Lending is a specialist niche and this line of business, being broker driven, was of variable quality and questionable profitability. With regard to Litigation Funding, a business segment in run off since 2007, the mediation process has been completed and the book's net debtor is expected to run off to a successful conclusion by 2011.

Conister Card Services — BIN Sponsorship

TransSend has been renamed as Conister Card Services and now acts as a BIN sponsor to prepaid card issuers in the Isle of Man and to appropriate opportunities that may arise elsewhere that comply with our regulatory requirements. This change in strategy is starting to filter into the Group's income statements and it is pleasing to report that Conister Card Services reported a profit for the second half of 2009, £0.1 million (2008: second half loss of £1.9 million). The full year result was a greatly reduced loss of £0.4 million (2008: £3.5 million) but encouragingly our position within the prepaid market allowed card volumes to increase to 73,150 (2008: 34,729), an increase of 111%.

The Future

It is clear that all business in financial services will continue to face significant challenges for years to come with increased consumer scrutiny and regulatory focus. However, the Isle of Man and UK markets present significant opportunities for sustainable managed growth.

I firmly believe that the Group has now put its legacy issues behind it and is uniquely positioned to exploit the opportunities presented by the fall out from the past two years.

In conclusion, I would like to thank all of our staff and all of our business partners without whom I would not have been able to make the changes that are necessary to build a strong, profitable and compliant business for the future.

Denham Eke

Chief Executive Officer

30 April 2010



James Mellon (53)‡

Executive Chairman and Non-Executive Director

James Mellon holds directorships in a number of publicly quoted companies, many of which are in the financial services sector. He is a life tenant of the trust which owns Burnbrae Limited which, in turn, indirectly holds approximately 20% of Manx Financial Group PLC. He is the founder, principal shareholder and co-chairman of the Regent Pacific Group with total assets of approximately US\$ 250 million. He is also founder, principal shareholder and a non-executive director of Charlemagne Capital, based on the Isle of Man, which has approximately US\$ 2.1 billion of assets under management.

Appointment

Appointed to the Board on 2 November 2007.



Denham Eke (58)‡

Chief Executive Officer

Denham Eke began his career in stockbroking before moving into corporate planning for a major UK insurance broker. He is a director of many years' standing of both public and private companies involved in the retail, manufacturing and financial services sectors. On the Isle of Man, he is Chairman of Webis Holdings PLC (internet wagering), Finance Director of Emerging Metals Limited (mining) and a Director of Speymill PLC (property management) – all quoted on AIM. He is also Managing Director of Burnbrae Group Limited.

Appointment

Appointed to the Board on 2 November 2007 and became Chief Executive on 12 February 2009.



David Gibson (63)*‡

Non-Executive Director

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

Appointment

Appointed to the Board on 12 February 2009.



Alan Clarke (59)*†‡

Non-Executive Director

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

Appointment

Appointed to the Board as a Non-Executive Director on 2 November 2007. Chairman of the Audit, Risk and Compliance Committee and Chairman of the Remuneration Committee.



Arron Banks (44)‡

Non-Executive Director

Arron Banks is the Co-founder and Insurance Director of Brightside Group PLC, a direct insurance group incorporating Commercial Vehicle Direct, One Business Insurance Solutions, Motor & Home Direct Insurance Services, Taxi Direct, eCar, eBike, eLife and eHome insurance, as well as other non-insurance products including Panacea Finance, a premium finance company. He has been involved in insurance since 1987, predominately at Director level with Lloyds, Haven (NU) and Motorcycle Direct, which he co-founded.

Appointment

Appointed to the Board on 2 November 2007, became Chief Executive Officer on 25 April 2008. He subsequently resigned on 12 February 2009 as CEO.



Simon Hull (45)‡

Executive Director

Simon is a Director of Manx Financial Group plc and Managing Director of Conister Bank Limited. He has over 20 years experience within the banking sector and previously held the position of Managing Director of Alliance and Leicester International Ltd on the Isle of Man and prior to that held other senior roles within Alliance and Leicester in the UK. Graduated from the University of Wales in 1985, is a Chartered Director, a Fellow of the Chartered Management Institute and holds a Post Graduate Certificate in Financial Regulation and Compliance Management.

Appointment

Appointed to the Board on 12 February 2009.

* Member of the Audit, Risk and Compliance Committee.

† Member of the Remuneration Committee.

‡ Member of the Nominations Committee.

**Ilyas Khan (47)†‡**

Non-Executive Director

Mr Khan is Executive Chairman of Crosby Capital Limited which he co-founded in 1998 in Hong Kong. Prior to founding Crosby Capital Limited, Mr Khan was a senior member of the management team and a managing director of Nomura, responsible for the Asian (non-Japan) investment banking and fixed income business. Mr Khan has more than 25 years' corporate finance and investment banking experience with financial institutions such as Citicorp, UBS and Schroders.

Appointment

Appointed to the Board on 2 November 2007.

**Don McCrickard (73)‡**

Non-Executive Director

From 1975 to 1983 Mr McCrickard was employed by American Express where he headed their businesses in the UK, Europe/Middle East/Africa and Asia/Pacific/Australia and was a Director of American Express International. Mr McCrickard was employed by the TSB Group (now Lloyds TSB Group) from 1983 to 1992 and became group chief executive as well as Chairman of Hill Samuel, the group's merchant banking subsidiary. He was Chairman of the group's executive committee, a member of the executive committee of the British Bankers Association and a member of the Bank of England's Deposit Protection Board. He has since held Chairmanships and directorships of a number of listed and private companies and specialises in Far Eastern affairs.

Appointment

Appointed to the Board as a Non-Executive Director on 2 November 2007.

**Douglas Grant (45)‡**

Executive Director

Appointed as the Group Finance Director in January 2010 having worked as a financial consultant to the Group since November 2008. He has over 25 years experience working in finance, initially with Scottish Power before moving to the industrial sector to work with ICI and then Allenwest. Prior to joining Manx Financial Group PLC he was the Group Financial Controller and later Finance Director of various UK and Isle of Man private sector companies and has extensive capital raising experience.

Appointment

Appointed to the Board on 14 January 2010.

**Nick Sheard (47)‡**

Executive Director

Nick Sheard is a Director of Conister Bank Limited and Head of Risk & Compliance for Manx Financial Group PLC. Previously Nick was Deputy Director of Banking Supervision for Jersey Financial Services Commission having previously been in charge of the Isle of Man Financial Supervision Commission Banking Supervision team. He has over 25 years experience in banking and financial markets having worked in senior roles in finance, compliance and risk management for several major investment banks, notably as Head of Regulatory Risk for NatWest Markets Equities Businesses and Deputy Head of Financial Regulation at CSFB Europe. Nick was born and educated on the Isle of Man and has considerable international experience having worked in London, Frankfurt and Belgium. He holds an MSc in Financial Regulation and Compliance Management and a BA Hons in Accounting and Finance.

Appointment

Appointed to the Board on 15 September 2009.

Advisers**Company Secretary**

Lesley Crossley

Registered Agent

CW Corporate Services Limited
(Appointed 15 January 2010)
50 Athol Street, Douglas
Isle of Man, IM1 1JB

Registered Office

Conister House, Isle of Man
Business Park,
Cooil Road, Braddan,
Isle of Man, IM2 2QZ

Independent Auditors

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

Legal Advisers

Stephenson Harwood
1 St Paul's Churchyard,
London, EC4M 8SH

Principal Bankers

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International Limited,
Barclays House
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Isle of Man, IM99 1AJ

Consulting Actuaries

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Guernsey, GY1 3BY

Pension Fund Investment Manager

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55 Esplanade, St Helier
Jersey, JE4 8UQ

Nominated Adviser

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Broker

Fairfax I.S. PLC,
46 Berkeley Square,
London, W1J 5AT

Presentation of Annual Report and Accounts

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

Company information

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

Share dealing

Share dealing services are available through Computershare Investor Services PLC which can be accessed via the website www.computershare.com where further contact details of Computershare are available for reference.

The Directors present their annual report and the audited financial statements for the year ended 31 December 2009.

Principal activities

The principal activities of Manx Financial Group PLC (referred to as the "Company") and its subsidiaries (together referred to as the "Group") are the provision of asset and personal finance (including premium finance), litigation finance, investing activities, the provision of prepaid cards and "BIN" sponsorship via the Conister Card Services division. The Company ceased to provide new litigation finance in June 2007 and premium financing in January 2010.

Conister Bank Limited (formerly Conister Trust Limited), a wholly owned subsidiary of the Company (referred to as "the Bank") holds a banking licence issued under the Isle of Man Banking Act 1998 (as amended). Deposits made with the Bank are covered by the Depositors' Compensation Scheme contained in the Banking Business (Compensation of Depositors) Regulations 1991.

Change of Name

On 23 July 2009 the Company changed its name from Conister Financial Group PLC to Manx Financial Group PLC.

The Bank changed its name from Conister Trust Limited to Conister Bank Limited on 19 October 2009.

TransSend IOM Limited, a subsidiary of Manx Financial Group PLC, changed its name to Conister Card Services Limited on 14 January 2010.

Conversion to a 2006 Company

On 15 January 2010 the Company converted to a 2006 Company as defined by Isle of Man Company Law.

Results and dividends

The proposed transfers to and from reserves are as set out in the Statement of Changes in Equity on page 17. The Directors do not recommend the payment of a dividend (2008: nil).

Share capital

Particulars of the authorised and issued share capital of the Company are set out in note 27 to the financial statements.

Significant shareholdings

The number of shares held and the percentage of the issued shares which that number represented as at 31 March 2010 are:

	Number	%
Bumbrae Limited	12,000,000	18.92
STM Fidecs Nominees Limited	7,889,645	12.44
Lynchwood Nominees Limited	6,717,801	10.59
Island Farms Limited	4,222,319	6.66
Royal Bank of Canada Europe Limited	2,873,000	4.53
ISI Nominees Limited	2,275,000	3.59
HSBC Global Custody Nominee (UK) Limited	2,191,658	3.46
Vidacos Nominees Limited (CLRLUX)	1,792,102	2.83
Vidacos Nominees Limited (CLRLUX2)	1,630,433	2.57
Rene Nominees (IOM) Limited	1,534,124	2.42

The Directors are not aware of any other individual holding of greater than 3% as at 31 March 2010.

Directors and Directors' share interests

Details of current Directors are set out on pages 6 and 7.

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

	Number 31/12/09	Number 31/12/08
J Mellon*	12,625,000	12,575,000
A Banks†	8,654,645	8,654,645
A Clarke	39,112	19,112
S Hull~	264,744	3,342
I Khan‡	150,000	100,000
D Grant	100,000	–
D Gibson^	70,000	–
D McCrickard>	50,000	–

* Burnbrae Limited holds 12,000,000 Ordinary Shares. J Mellon, Executive Chairman of MFG, is a Director of Burnbrae Limited. Burnbrae Limited is wholly owned by a trustee of a settlement of which J Mellon is a beneficiary. D Eke, CEO of MFG, is also a Director of Burnbrae Limited. Pershing Nominees Limited holds 125,000 Ordinary Shares on trust for J Mellon. J Mellon holds 500,000 Ordinary Shares in his own name.

† STM Fidecs Nominees Limited holds 7,889,645 Ordinary Shares on trust for Rock Holdings Limited (5,278,645 Ordinary Shares) and for Southern Rock Insurance Company Limited (2,611,000 Ordinary Shares). Rene Nominees Limited (IOM) Limited holds 765,000 Ordinary Shares on trust for Southern Rock Insurance Company Limited (740,000 Ordinary Shares) and A Banks (25,000 Ordinary Shares). A Banks, a Director of the Company, is beneficially interested in 51% of the issued share capital of Rock Holdings Limited and is beneficially interested in 37.5% of the issued share capital of Southern Rock Insurance Company Limited. A Banks is a Director of Rock Holdings Limited and Southern Rock Insurance Company.

~ Comprises 251,700 ordinary shares held by Rene Nominees (IOM) Limited on trust for S Hull and 13,044 ordinary shares held by Barclays Stockbrokers Nominees on trust for S Hull.

‡ Comprises 55,000 ordinary shares held by Vidacos Nominees on trust for I Khan and 95,000 ordinary shares held by Pershing Nominees on trust for I Khan.

^ Comprises 70,000 ordinary shares held by TD Waterhouse Nominees Limited on trust for D Gibson.

> Comprises 50,000 ordinary shares held by Hargreaves Landsdown Nominees Limited on trust for D McCrickard.

Directors' liability insurance

The Group maintains insurance cover for Directors' liability.

Fixed assets

The movement in fixed assets during the year is set out in note 21 to the financial statements.

Staff

At 31 December 2009 there were 39 members of staff, 7 of whom were part-time (2008: 58 members of staff, 8 of whom were part-time). The staff numbers for 2008 included 18 members of staff, 3 of whom were part-time who were made redundant as part of a Group-wide restructure after the year end.

Investments in subsidiaries

Investments in the Company's subsidiaries are disclosed in note 22 to the financial statements.

Auditor

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

Corporate governance

The Combined Code ("Code") on Corporate Governance sets out standards of good practice in relation to issues such as board composition and development, remuneration, accountability and audit and relations with Shareholders. The Company's Board, monitors the extent to which the Company's established procedures and corporate governance structures comply with the Code and is satisfied that the Company complies with the provisions of the Code to the extent which is appropriate to the Company's nature and scale of operations. The Board has maintained a majority of Non-Executive Directors throughout the year. The Board delegates authority to two main committees: the Audit, Risk and Compliance Committee and the Remuneration Committee. Membership of the committees is detailed on pages 6 and 7. The Audit Risk and Compliance Committee is responsible for assisting the Board to discharge its responsibilities relating to accounting policies, internal control and financial reporting and is composed of two Non-Executive Directors chaired by Mr A Clarke. The external Auditors, Executive Directors and senior managers are invited to attend meetings as appropriate, while the external Auditors and the Internal Audit and Compliance functions have unfettered access to the Committee members.

The Remuneration Committee recommends to the full Board the terms and conditions, including annual remuneration, of the Executive Directors and senior management. It is composed of two Non-Executive Directors and is chaired by Mr A Clarke. The members are independent of management and its Chairman is free from any business or other relationship which could materially interfere with the exercise of his independent judgement.

The Remuneration Committee has access to external professional advice and relevant company records and personnel. The primary purpose of the Remuneration Committee is to attract, retain and motivate Executive Directors and managers of a quality to drive the business forward. A proportion of the Executive Directors' and senior managers' remuneration is structured so as to link rewards to corporate and individual performance. The performance related elements of remuneration are designed to align Executive Directors' and senior managers' interests with those of the Shareholders and to give them keen incentives to perform at the highest level. In that regard, share options are not offered at a discount and no bonuses or benefits-in-kind are pensionable. Further details are provided in the Directors' Remuneration Report.

The full Board forms the Nomination Committee which considers all new Board appointments and succession planning in the light of the needs of the Company from time to time. All Directors are required to submit themselves for re-election. One third of Directors who are subject to retirement by rotation shall retire from office by rotation at every Annual General Meeting.

By order of the Board

Lesley Crossley

Company Secretary
30 April 2010

Introduction

As an Isle of Man registered company there is no requirement to produce a Directors' remuneration report. However, the Board follows best practice and therefore has prepared such a report. In preparing the report the Directors have referred to the regulations and rules in force for UK companies as a basis. There is no Isle of Man requirement for any part of this report to be audited.

Remuneration Committee

The Company has established a Remuneration Committee, which is constituted in accordance with the recommendations of the Combined Code. The members of the Committee are Mr A Clarke and Mr I Khan, both independent Non-Executive Directors, and the Committee is chaired by Mr A Clarke. The Committee makes recommendations to the Board. No Director plays a part in any discussion about his own remuneration.

Remuneration policy for the Executive Directors' remuneration packages is designed to attract, motivate and retain Directors of the high calibre needed to enhance the Group's position and to reward them for improving Shareholder value. The performance measurement of the Executive Directors and key members of senior management and the determination of their annual remuneration packages are undertaken by the Committee.

There are five potential elements of the remuneration package for Executive Directors and senior management:

- Basic annual salary;
- Benefits-in-kind;
- Annual bonus payment;
- Share option incentives; and
- Pension arrangements.

Basic salary

An Executive Director's basic salary is reviewed by the Committee prior to the beginning of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole.

Benefits-in-kind

No Directors receive benefits-in-kind.

Annual bonus payment

The Committee believes that any incentive compensation awarded should be tied to the interests of the Company's Shareholders and that the principal measure of their interest is total Shareholder return. Account is also taken of the relative success of the different parts of the business for which the Chief Executive Officer or Executive Director is responsible and the extent to which the strategic objectives set by the Board are being met.

Share option incentives

The Company believes these to be a key element of remuneration given the direct link with Shareholder interests. Those awarded at the balance sheet date are disclosed in Note 27 to the financial statements.

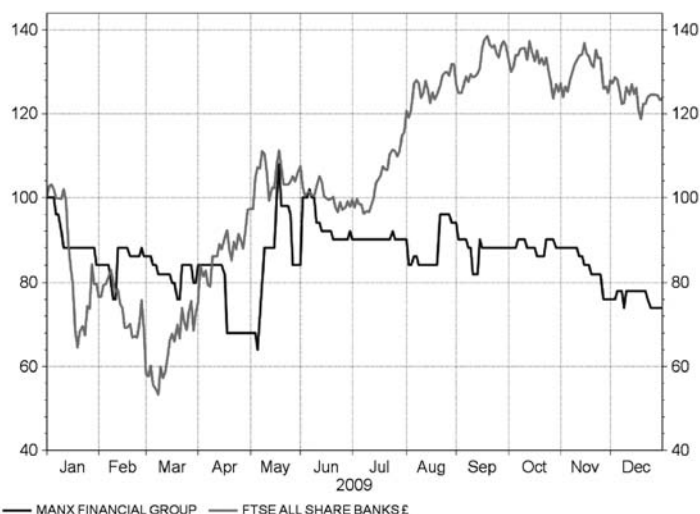
Pension arrangements

Neither the Chief Executive Officer or the Executive Chairman receive pension contributions.

Performance graph

UK Companies Acts require the performance of the Group to be displayed in a chart form against the performance of a readily available broad equity market index.

Although MFG is an Isle of Man company, it has chosen to adopt the UK requirement as best practice. The graph below shows the movement in share price in comparison to the price in the FTSE All Share Bank Index to give an indication of Shareholder return. The FTSE All Share Bank Index is a broadly based index of Shareholder return. The information provided covers the year from January 2009 to December 2009.



Chief Executive Officer's contract

On 12 February 2009 Mr D Eke was appointed as Chief Executive Officer. The overall fee payable by the Group for the services of Mr D Eke was unchanged on his appointment remaining at £25,000 per annum.

Former Chief Executive Officer's contract

On 12 February 2009 Mr A F A Banks stepped down as Chief Executive Officer. No ex gratia payment was made and the entitlement to the 1,000,000 share options held at 31 December 2008 lapsed.

Non-Executive Directors

Non-Executive Directors have no fixed term of appointment. Non-Executive Directors are subject to reappointment by Shareholders.

Directors' emoluments

	Remuneration/ Fees £	Bonus £	Pension £	2009 Total £	2008 Total £
Executive					
Chairman					
J Mellon	25,000	—	—	25,000	25,000
Executive					
A F A Banks	8,333	—	—	8,333	87,500
S Hull	142,000	—	1,141	143,141	—
J F Linehan	—	—	—	—	447,930
N Sheard	82,846	1,000	7,618	91,464	—
Non-Executive					
A F A Banks	11,458	—	—	11,458	—
A Clarke	37,500	—	—	37,500	29,167
D Eke	25,000	—	—	25,000	25,262
D Gibson	36,458	—	—	36,458	17,050
I T Khan	12,500	—	—	12,500	21,875
D C McCrickard	37,500	—	—	37,500	29,167
P Stamp	—	—	—	—	21,875
Aggregate emoluments	418,595	1,000	8,759	428,354	704,826

Approval

This report was approved by the Board of Directors on 30 April 2010 and signed on its behalf by:

James Mellon

Chairman
30 April 2010

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. In addition, the Directors have elected to prepare the Group and Parent Company financial statements in accordance with International Financial Reporting Standards.

The Group and Parent Company financial statements are required to give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group for that 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 International Financial Reporting Standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and to allow for the preparation of financial statements. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.

Report of the Independent Auditor, KPMG Audit LLC, to the members of Manx Financial Group PLC (formerly Conister Financial Group PLC)

We have audited the Group and Parent Company financial statements (the "financial statements") of Manx Financial Group PLC (formerly Conister Financial Group PLC) for the year ended 31 December 2009 which comprise the Group Comprehensive Statement of Income, the Group and Parent Company Statement of Financial Position, the Group Statement of Cash Flows, and the Group and Parent Company Statement of Changes in Equity, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of Directors and Auditor

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards are set out in the Statement of Directors' Responsibilities on page 12.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the financial statements give a true and fair view. We also report to you if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Directors' Report and any other information accompanying the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the audited financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group and Parent Company's affairs as at 31 December 2009 and of the Group's loss for the year then ended.

KPMG Audit LLC

Chartered Accountants
30 April 2010
Heritage Court
41 Athol Street
Douglas
Isle of Man
IM99 1HN

Manx Financial Group PLC
Consolidated Comprehensive
Statement of Income

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For the year ended 31 December 2009	Notes	2009 £000	2008 £000
Interest income	3j, 6	5,341	7,140
Interest expense	3j, 7	<u>(3,222)</u>	<u>(3,552)</u>
Net interest income		2,119	3,588
Fee and commission income	3k	9	18
Fee and commission expense		<u>(459)</u>	<u>(727)</u>
Net fee and commission expense		(450)	(709)
Net trading income		1,669	2,879
Other operating income		871	805
Programme costs	3l	<u>(591)</u>	<u>(505)</u>
Foreign exchange (loss)/gain	3r	<u>(26)</u>	<u>31</u>
Operating income		1,923	3,210
Personnel expenses		<u>(2,425)</u>	<u>(4,421)</u>
Depreciation	3b, 21	<u>(102)</u>	<u>(77)</u>
Other expenses		<u>(1,395)</u>	<u>(3,366)</u>
Provision for impairment of loan assets	8	<u>(643)</u>	<u>(1,363)</u>
Depositors' Compensation Scheme	11	<u>(89)</u>	<u>—</u>
Realised loss on sale of available-for-sale financial instruments		<u>—</u>	<u>(454)</u>
Dividend income from financial assets carried at fair value		<u>—</u>	<u>6</u>
Realised gains on available-for-sale investments		<u>30</u>	<u>—</u>
Unrealised gain/(loss) on financial assets carried at fair value	18	<u>238</u>	<u>(162)</u>
Loss before specific items		(2,463)	(6,627)
Net impairment loss on available-for-sale financial instruments	19	<u>—</u>	<u>(9,638)</u>
Re-structure costs	9	<u>(158)</u>	<u>(1,425)</u>
Project costs	10	<u>—</u>	<u>(494)</u>
Legal costs related to net impairment of available-for-sale financial instruments	19	<u>—</u>	<u>(76)</u>
Scheme of arrangement costs	12	<u>—</u>	<u>(45)</u>
Loss before income tax expense		(2,621)	(18,305)
Income tax expense	14	<u>—</u>	<u>—</u>
Loss for the year		(2,621)	(18,305)
Other comprehensive income			
Available-for-sale gains taken to equity	3g, 26	6	—
Actuarial loss on defined benefit pension scheme		<u>(111)</u>	<u>(43)</u>
Total comprehensive loss for the period attributable to owners		(2,726)	(18,348)
Basic and diluted loss per share (pence)	15	<u>(4.13)</u>	<u>(32.8)</u>

The notes on pages 18 to 48 form part of these Financial Statements.

Manx Financial Group PLC
Consolidated and Company
Statement of Financial Position

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As at 31 December 2009	Notes	Group		Company	
		2009 £000	2008 £000	2009 £000	2008 £000
Assets					
Cash and cash equivalents	17	7,976	20,589	—	—
Financial assets at a fair value through profit or loss	18	374	136	—	—
Available-for-sale financial instruments	19	9,989	—	—	—
Loans and advances to customers	20	37,554	55,916	—	—
Property, plant and equipment	21	601	192	6	—
Investment in Group undertakings	22	—	—	6,191	9,610
Trade and other receivables	23	450	1,389	24	472
Total assets		56,944	78,222	6,221	10,082
Liabilities					
Customer accounts	24	49,544	66,058	—	—
Creditor and accrued charges	25	1,282	3,094	192	1,059
Pension liability	26	66	314	—	—
Total liabilities		50,892	69,466	192	1,059
Equity					
Called up share capital	27	15,854	15,854	15,854	15,854
Share premium account	27	6,142	6,142	6,142	6,142
Profit and loss account		(15,944)	(13,240)	(15,967)	(12,973)
Total equity		6,052	8,756	6,029	9,023
Total liabilities and equity		56,944	78,222	6,221	10,082

The Financial Statements were approved by the Board of Directors on 30 April 2010 and signed on their behalf by:

James Mellon
Chairman

Denham Eke
Chief Executive Officer

The notes on pages 18 to 48 form part of these Financial Statements.

Manx Financial Group PLC
Consolidated Statement of Cash Flows

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For the year ended 31 December 2009	Notes	2009 £000	2008 £000
RECONCILIATION OF LOSS BEFORE TAXATION TO OPERATING CASH FLOWS			
Loss before tax on continuing activities		(2,621)	(18,305)
Realised loss on financial assets held at fair value through profit and loss		—	454
Unrealised (gain)/loss on financial assets carried at fair value		(238)	162
Net impairment loss on financial assets		—	9,638
Dividend income from financial assets carried at fair value through profit and loss		—	(6)
Loss on disposal of property, plant and equipment		2	104
Depreciation charge	21	102	77
Available-for-sale gains taken to equity		6	—
Actuarial losses on defined benefit pension scheme taken to equity	26	(111)	(43)
(Decrease)/increase in pension liability	26	(248)	9
Share-based payment expense	27	22	315
Decrease/(increase) in trade debtors		939	(651)
(Decrease)/increase in trade creditors		(1,812)	1,057
Net cash outflow from trading activities		(3,959)	(7,189)
Decrease in loans and advances to customers		18,362	821
(Decrease)/increase in deposit accounts		(16,514)	4,085
Cash outflow from operating activities		(2,111)	(2,283)
CASH FLOW STATEMENT			
Cash flows from operating activities			
Cash outflow from operating activities		(2,111)	(2,283)
Taxation paid		—	(1)
Net cash outflow from operating activities		(2,111)	(2,284)
Cash flows from investing activities			
Purchase of tangible fixed assets		(526)	(96)
Purchase of available-for-sale financial instruments	19	(9,989)	(909)
Sale of financial assets at fair value through profit and loss		—	127
Sale of tangible fixed assets		13	—
Dividend income from financial assets carried at fair value		—	346
Net cash outflow from investing activities		(10,502)	(532)
Cash flows from financing activities			
Issue of subordinated liabilities		—	500
Net cash inflow from financing activities		—	500
Decrease in cash and cash equivalents		(12,613)	(2,316)

The notes on pages 18 to 48 form part of these Financial Statements.

Manx Financial Group PLC
Consolidated and Company
Statement of Changes in Equity

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For the year ended 31 December 2009 Group	Share capital £000	Share premium £000	Retained earnings £000	2009 £000	2008 £000
Balance as at 1 January	15,854	6,142	(13,240)	8,756	17,473
Loss for the year	—	—	(2,621)	(2,621)	(18,305)
Other comprehensive expense	—	—	(105)	(105)	(43)
Transactions with owners:					
Arising on shares issued in the year	—	—	—	—	9,316
Share-based payment expense	—	—	22	22	315
Balance as at 31 December 2009	15,854	6,142	(15,944)	6,052	8,756

For the year ended 31 December 2009 Company	Share capital £000	Share premium £000	Retained earnings £000	2009 £000	2008 £000
Balance as at 1 January	15,854	6,142	(12,973)	9,023	—
Loss for the year	—	—	(3,016)	(3,016)	(13,288)
Transactions with owners:					
Scheme of arrangement	—	—	—	—	12,680
Arising on shares issued in the year	—	—	—	—	9,316
Share-based payment expense	—	—	22	22	315
Balance as at 31 December 2009	15,854	6,142	(15,967)	6,029	9,023

The notes on pages 18 to 48 form part of these Financial Statements.

1. Reporting entity

Manx Financial Group PLC is a Company domiciled in the Isle of Man. The consolidated financial statements of Manx Financial Group PLC (referred to hereafter as the "Company") for the twelve months ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group").

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

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations applicable to companies reporting under IFRS.

The Group applies revised IAS 1 Presentation of Finance Statements (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these financial statements as of and for the year ended on 31 December 2009. Comparative information has been re-presented so that it also is in conformity with the revised standard.

Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

3. Significant accounting policies

(a) Basis of consolidation of subsidiaries

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

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

(b) Property, plant and equipment continued

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

3. Significant accounting policies continued

(b) Property, plant and equipment continued

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

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

Depreciation

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

Equipment	4–5 years
Vehicles	4 years
Furniture	10% per annum

(c) Financial assets

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

Loans and receivables

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

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

Financial assets at fair value through profit or loss

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

Available-for-sale financial instruments

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

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

Investments in subsidiary undertakings

Investments in subsidiary undertakings are measured at cost less any provision for impairment.

(d) Impairment of financial assets

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

3. Significant accounting policies continued

(d) Impairment of financial assets continued

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

Loans and other receivables are reviewed for impairment where there are repayment arrears and doubt exists regarding recoverability. The impairment allowance is based on the level of arrears together with an assessment of the expected future cash flows, and the value of any underlying collateral (after taking into account any irrecoverable interest due). Amounts are written off when it is considered that there is no further prospect of recovery.

Where past experience has indicated that over time, a particular category of financial assets has suffered a trend of impairment losses, a collective impairment allowance is made for expected losses to reflect the continuing historical trend.

(e) Cash and cash equivalents

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

(f) Financial liabilities

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

(g) Employee benefits

Pension obligations

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

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

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

Under the defined benefit pension plan, in accordance with IAS19 Employee benefits, the full service cost for the period, adjusted for any changes to the plan, is charged to the comprehensive statement of income. A charge equal to the expected increase in the present value of the plan liabilities, as a result of the plan liabilities being one year closer to settlement, and a credit reflecting the long-term expected return on assets based on the market value of the scheme assets at the beginning of the period, is included in the comprehensive statement of income.

The statement of financial position records as an asset or liability (as appropriate), the difference between the market value of the plan assets and the present value of the accrued plan liabilities. The difference between the expected return on assets and that actually achieved in the period, is recognised in the comprehensive statement of income in the year in which they arise. The defined benefit pension plan obligation is calculated by independent actuaries using the projected unit credit method and a discount rate based on the yield on AA rated corporate bonds.

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

Share-based compensation

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

3. Significant accounting policies continued

(g) Employee benefits continued

Share-based compensation continued

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

The share option programme was originally set up for Group employees to subscribe for shares in Conister Bank Limited. Since the Scheme of Arrangement, the shareholders of Conister Bank Limited became shareholders of Manx Financial Group PLC and the share option programme is now operated by Manx Financial Group PLC.

The fair value is estimated by an independent actuary using a proprietary binomial probability model.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

Other obligations

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

(h) Leases

i) A Group Company is the lessor

Finance leases and hire purchase contracts

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

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

ii) A Group Company is the lessee

Operating leases

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

(i) Deferred taxation

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

(j) Interest income and expense

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

Effective interest rate

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

3. Significant accounting policies continued

(j) Interest income and expense continued

Effective interest rate continued

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

(k) Fees and commission income

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

(l) Programme costs

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

(m) Segment reporting

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

(n) New standards and interpretations not yet adopted

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

New/Revised International Accounting Standards/International Financial Reporting Standards (IAS/IFRS)	Effective date (accounting periods commencing after)
IAS1 Presentation of Financial Statements (Revised 2009)	1 January 2010
IAS7 Statement of Cash Flows (Revised 2009)	1 January 2010
IAS17 Leases (Revised 2009)	1 January 2010
IAS24 Related Party Disclosures — Revised definition of related parties	1 January 2011
IAS27 Consolidated and Separate Financial Statements – Amendment relating to cost of an investment on first-time adoption (Revised 2008)	1 July 2009
IAS28 Investments in Associates — Consequential amendments resulting from amendments to IFRS3 (2008)	1 July 2009
IAS31 Interests in Joint Ventures — Consequential amendments resulting from amendments to IFRS3 (2008)	1 July 2009
IAS32 Financial Instruments: Presentation — Amendments relating to classification of rights issues	1 February 2010
IAS36 Impairment of Assets (Revised 2009)	1 January 2010
IAS38 Intangible Assets	1 July 2009
IAS39 Financial Instruments: Recognition and Measurement — Amendments for embedded derivatives when reclassifying financial instruments	30 June 2009
IAS39 Financial Instruments: Recognition and Measurement — Amendments for eligible hedged items	1 July 2009
IAS39 Financial Instruments: Recognition and Measurement (Revised 2009)	1 January 2010
IFRS2 Share-based Payment — Amendments relating to Group cash-settled share-based payment transactions	1 January 2010
IFRS3 Business Combinations — Comprehensive revision on applying the acquisition method	1 July 2009
IFRS5 Non-current Assets Held for Sale and Discontinued Operations (Revised 2008)	1 July 2009
IFRS5 Non-current Assets Held for Sale and Discontinued Operations (Revised 2009)	1 January 2010
IFRS7 Disclosures for First-time Adopters (Amendment to IFRS1)	1 July 2010
IFRS8 Operating Segments (Revised 2009)	1 January 2010
IFRS9 Financial Instruments	1 January 2013
IFRIC Interpretations	
IFRIC9 Reassessment of Embedded Derivatives	30 June 2009
IFRIC17 Distributions of Non-Cash Assets to Owners	1 July 2009
IFRIC18 Transfers of Assets from Customers	1 July 2009
IFRIC19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

3. Significant accounting policies continued

(n) New standards and interpretations not yet adopted continued

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

(o) Key sources of estimation uncertainty

Management believe that a key area of estimation and uncertainty is in respect of the impairment allowances on loans and advances to customers. Loans and advances to customers are evaluated for impairment on a basis described in note 4, credit risk. The Group has substantial historical data upon which to base collective estimates for impairment on HP Contracts, Finance Leases and Personal Loans. The Litigation Funding loan book has in recent years seen volatility in repayment patterns and there is therefore greater uncertainty in assessing impairment allowances on this loan book. The litigation described in note 32 has also made the assessment of the appropriate impairment allowances on this loan book more difficult and there is the possibility that further litigation will be necessary to collect a number of outstanding balances. This could delay the recovery of affected loans and make their recovery more costly than anticipated. Counter claims have been received and there is the possibility of litigation being necessary. There is a risk of an adverse outcome in all litigation and the costs and timescale to resolve these matters are uncertain. The costs of administering the future run off of the litigation funding loan book are also therefore uncertain. The accuracy of the impairment allowances and provisions for counter claims and legal costs depend on how closely the estimated future cash flows mirror actual experience.

(p) Fiduciary deposits

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

(q) Prepaid card funds

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

(r) Foreign exchange

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

4. Risk and capital management

(a) Risk management

Introduction and overview

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

- credit risk
- liquidity risk
- operational risk
- market risk

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

Risk management framework

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

The Board of the Bank has established the Executive Risk Committee (ERC) which reports to the Audit Risk and Compliance Committee (ARCC) and is responsible for developing and monitoring risk management policies in their specified areas. Operational responsibility for asset and liability management is delegated to the Executive Directors of the Bank, and management through the Bank's Assets and Liabilities Committee (ALCO).

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions. The Group has a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The ARCC is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the ARCC.

i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default, country and sector risk).

The Group is principally exposed to credit risk with regard to loans and advances to customers, comprising HP and finance lease receivables, premium finance loans, litigation funding loans, unsecured personal loans and stocking plan loans. It is also exposed to credit risk with regard to cash balances and trade and other receivables. The administration of premium finance lending is outsourced and there is a credit risk with regards to the clearing balance maintained in the outsourcing Company's bank account.

Management of credit risk

The Board of Directors of the Bank has delegated responsibility for the management of credit risk to the Credit Committee (CC) for loans and ALCO for other assets. The following measures are taken in order to manage the exposure to credit risk:

- Explicit credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- A rigorous authorisation structure for the approval and renewal of credit facilities. Each opportunity is researched for viability, legal/regulatory restriction and risk. If recommended, the proposal is submitted to Board of Directors or the CC. The CC reviews lending assessments in excess of individual credit control or executive discretionary limits.
- Reviewing and assessing existing credit risk and collateral. The CC assesses all credit exposures in excess of designated limits, as set out in the underwriting manual (for asset and personal finance) or the Operating Model and Procedures (for premium finance).

4. Risk and capital management continued

(a) Risk management continued

Management of credit risk continued

i) Credit risk continued

- Limiting concentrations of exposure to counterparties, geographies and industries (defining sector limits and lending caps).
- Limiting the term of exposure to minimise interest rate risk.
- Ensuring that appropriate records of all sanctioned facilities are maintained.
- Ensuring regular account reviews are carried out for all accounts agreed by the CC.
- Ensuring Board approval is obtained on all decisions of the CC above the limits set out in the Bank's Credit risk policy.

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

	2009	2008
	£000	£000
Loans and advances to customers		
Carrying amount	37,554	55,916
Individually impaired ¹		
Grade A	1,361	4,301
Grade B	468	464
Grade C	4,004	516
Gross value	5,833	5,281
Allowance for impairment	(4,103)	(3,397)
Carrying value	1,730	1,884
Collective allowance for impairment	(333)	(768)
Past due but not impaired		
Less than 1 month	46	86
More than 1 month but less than 2 months	6	6
More than 2 months but less than 3 months	1	12
Carrying value	53	104
Neither past due nor impaired	36,104	54,696

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

4. Risk and capital management continued

(a) Risk management continued

Management of credit risk continued

i) Credit risk continued

Impaired loans

Impaired loans are loans where the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

Past due but not impaired loans

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

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss allowance that relates to individually significant exposures, and a collective loan loss allowance, which is established for the Group's assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. The collective loan loss allowance is based on historical experience, the current economic environment and an assessment of its impact on loan collectability. Guidelines regarding specific impairment allowances are laid out in the Bank's Debt Recovery Process Manual which is reviewed annually.

Write-off policy

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

Collateral

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

Concentration of credit risk

Geographical

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

Segmental

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

ii) Liquidity risk

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

Management of liquidity risk

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

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

4. Risk and capital management continued

(a) Risk management continued

ii) Liquidity risk continued

Minimum liquidity

The Isle of Man Financial Supervision Commission (FSC) requires that the Bank should be able to meet its obligations for a period of at least one month. In order to meet this requirement, the Bank measures and manages its cash flow commitments, and maintains its liquid balances in a diversified portfolio of short-term bank balances.

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

Measurement of liquidity risk

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

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

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

31 December 2009									
Group	Sight- 8 days £000	> 8 days - 1 month £000	> 1 month - 3 months £000	> 3 months - 6 months £000	> 6 months - 1 year £000	> 1 year - 3 years £000	> 3 years - 5 years £000	> 5 years £000	Total £000
Customer accounts	2,683	2,750	5,957	5,468	11,923	23,743	—	—	52,524
Other liabilities	782	—	—	—	—	—	500	66	1,348
Total liabilities	3,465	2,750	5,957	5,468	11,923	23,743	500	66	53,872
31 December 2008									
Group	Sight- 8 days £000	> 8 days - 1 month £000	> 1 month - 3 months £000	> 3 months - 6 months £000	> 6 months - 1 year £000	> 1 year - 3 years £000	> 3 years - 5 years £000	> 5 years £000	Total £000
Customer accounts	782	3,101	3,441	14,196	38,050	12,125	—	—	71,695
Other liabilities	2,594	3	6	9	18	72	706	—	3,408
Total liabilities	3,376	3,104	3,447	14,205	38,068	12,197	706	—	75,103

4. Risk and capital management continued

(a) Risk management continued

Measurement of liquidity risk continued

Maturity of assets and liabilities at the balance sheet date

31 December 2009									
Group	Sight- 8 days £000	> 8 days - 1 month £000	> 1 month - 3 months £000	> 3 months - 6 months £000	> 6 months - 1 year £000	> 1 year - 3 years £000	> 3 years - 5 years £000	> 5 years £000	Total £000
Assets									
Cash and cash equivalents	7,976	—	—	—	—	—	—	—	7,976
Available-for-sale financial instruments	—	1,999	7,990	—	—	—	—	—	9,989
Customer accounts receivable	597	2,577	6,383	6,544	7,832	12,300	1,321	—	37,554
Other assets	—	—	—	—	—	—	—	1,425	1,425
Total assets	8,573	4,576	14,373	6,544	7,832	12,300	1,321	1,425	56,944
Liabilities									
Customer accounts	1,907	2,200	3,668	6,493	8,882	25,335	—	1,059	49,544
Other liabilities	782	—	—	—	—	—	500	66	1,348
Total liabilities	2,689	2,200	3,668	6,493	8,882	25,335	500	1,125	50,892
31 December 2008									
Group	Sight- 8 days £000	> 8 days - 1 month £000	> 1 month - 3 months £000	> 3 months - 6 months £000	> 6 months - 1 year £000	> 1 year - 3 years £000	> 3 years - 5 years £000	> 5 years £000	Total £000
Cash and cash equivalents	20,589	—	—	—	—	—	—	—	20,589
Customer accounts receivable	2,556	3,841	9,119	11,026	11,345	15,980	2,049	—	55,916
Other assets	—	—	—	—	—	—	—	1,717	1,717
Total assets	23,145	3,841	9,119	11,026	11,345	15,980	2,049	1,717	78,222
Liabilities									
Customer accounts	781	2,970	3,400	10,900	37,240	10,767	—	—	66,058
Other liabilities	2,594	3	6	9	18	72	706	—	3,408
Total liabilities	3,375	2,973	3,406	10,909	37,258	10,839	706	—	69,466

4. Risk and capital management continued

(a) Risk management continued

Measurement of liquidity risk continued

iii) Operational risk

Operational risk arises from the potential for inadequate systems (including systems breakdown), errors, poor management, breaches in internal controls, fraud and external events to result in financial loss or reputational damage. Operational risk also arises through the use of an outsourcing partner, which is the case with the premium finance loan administration provider. The Group manages this risk through appropriate risk controls and loss mitigation actions. These actions include a balance of policies, procedures, internal controls and business continuity arrangements.

Operational risk across the Group is analysed and discussed at all Board meetings, with ongoing monitoring of actions arising to address the risks identified.

iv) Market risk

Market risk is the risk that changes in the level of interest rates, changes in the rate of exchange between currencies or changes in the price of securities and other financial contracts (including derivatives) will have an adverse financial impact. The primary market risk within the Group is interest rate risk exposure in the Bank.

During the year the Group was exposed to market price risk through holding available for sale financial instruments, and a financial asset carried at fair value through the profit and loss. There is no exposure at the year-end to the available for sale-financial instruments as the instruments have either been disposed of or fully impaired (Equity Special Situations Limited) during the year. The exposure remaining relates to the financial asset carried at fair value through the profit and loss in the Bank, which is an equity investment stated at a market value. Given the size of this holding, £374,000 at 31 December 2009 (2008: £136,000) the potential impact on the results for the Group is relatively small and no sensitivity analysis has been provided for the market price risk.

Interest rate risk

Interest rate risk exposure in the Bank arises from the difference between the maturity of capital and interest payable on customer deposit accounts, and the maturity of capital and interest receivable on loans and financing. The differing maturities on these products create interest rate risk exposures due to the imperfect matching of different financial assets and liabilities. The risk is managed on a continuous basis by management and reviewed by the Board of Directors. The Bank monitors interest rate risk on a monthly basis via the ALCO.

The matching of the maturity interest rates of assets and liabilities is fundamental to the management of the Bank. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates.

Interest risk re-pricing table

The following tables present the interest rate mismatch position between assets and liabilities over the respective maturity dates. The maturity dates are presented on a worst case basis, with assets being recorded at their latest maturity and customer accounts at the earliest:

31 December 2009	Sight-	> 1 month	> 3 months	> 6 months	> 1 year	> 3 years	> 5 years	Total
	- 1 month	- 3 months	- 6 months	- 1 year	- 3 years	- 5 years		
	£000	£000	£000	£000	£000	£000	£000	£000
Assets								
Cash and cash equivalents	7,976	—	—	—	—	—	—	7,976
Available-for-sale financial instruments	1,999	7,990	—	—	—	—	—	9,989
Customer accounts receivable	2,761	6,463	6,544	7,832	12,632	1,322	—	37,554
Other assets	1,425	—	—	—	—	—	—	1,425
Total assets	14,161	14,453	6,544	7,832	12,632	1,322	—	56,944
Liabilities								
Customer accounts	4,107	3,668	6,493	8,882	25,336	—	1,058	49,544
Other liabilities	848	—	—	—	—	500	—	1,348
Total capital and reserves	6,052	—	—	—	—	—	—	6,052
Total liabilities and equity	11,007	3,668	6,493	8,882	25,336	500	1,058	56,944
Interest rate sensitivity gap	3,154	10,785	51	(1,050)	(12,704)	822	(1,058)	—
Cumulative	3,154	13,939	13,990	12,940	236	1,058	—	—

4. Risk and capital management continued

(a) Risk management continued

31 December 2008	Sight- - 1 month £000	> 1 month - 3 months £000	> 3 months - 6 months £000	> 6 months - 1 year £000	> 1 year - 3 years £000	> 3 years - 5 years £000	> 5 years £000	Total £000
Assets								
Cash and cash equivalents	20,589	—	—	—	—	—	—	20,589
Customer accounts receivable	6,395	9,118	11,025	11,345	15,979	2,054	—	55,916
Other assets	1,717	—	—	—	—	—	—	1,717
Total assets	28,701	9,118	11,025	11,345	15,979	2,054	—	78,222
Liabilities								
Customer accounts	3,751	3,400	10,900	37,240	10,767	—	—	66,058
Other liabilities	2,908	—	—	—	—	500	—	3,408
Total capital and reserves	8,756	—	—	—	—	—	—	8,756
Total liabilities and equity	15,415	3,400	10,900	37,240	10,767	500	—	78,222
Interest rate sensitivity gap	13,286	5,718	125	(25,895)	5,212	1,554	—	—
Cumulative	13,286	19,004	19,129	(6,766)	(1,554)	—	—	—

* Sight to < 1 month also includes non-interest bearing funds.

Sensitivity analysis for interest rate risk

The Bank monitors the impact of changes in interest rates on interest rate mismatch positions using a method consistent with the FSC required reporting standard. The methodology applies weightings to the net interest rate sensitivity gap in order to quantify the impact of an adverse change in interest rates of 2% per annum (2008: 1%). The following tables set out the estimated total impact of such a change based on the mismatch at the balance sheet date.

With the adoption of Basel II on 31 March 2009 the Bank has moved to the appropriate FSC required reporting standard which applies weighting to the net interest rate sensitivity gap that quantifies the impact of an adverse change in interest rates of 2% per annum.

31 December 2009	Sight- - 1 month £000	> 1 month - 3 months £000	> 3 months - 6 months £000	> 6 months - 1 year £000	> 1 year - 3 years £000	> 3 years - 5 years £000	> 5 years £000	Total £000
Interest rate sensitivity gap	3,154	10,785	51	(1,050)	(12,704)	822	(1,058)	—
Weighting	0.000	0.003	0.007	0.014	0.027	0.054	0.115	—
Cumulative £000	—	34	—	(15)	(352)	48	(122)	(407)

31 December 2008	Sight- - 1 month £000	> 1 month - 3 months £000	> 3 months - 6 months £000	> 6 months - 1 year £000	> 1 year - 3 years £000	> 3 years - 5 years £000	> 5 years £000	Total £000
Interest rate sensitivity gap	13,286	5,718	125	(25,895)	5,212	1,554	—	—
Weighting	0.000	0.002	0.004	0.007	0.018	0.028	0.040	—
Cumulative £000	—	11	1	(181)	94	44	—	(31)

4. Risk and capital management continued

(b) Capital management

Regulatory capital

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

In implementing current capital requirements the capital position in the Bank is also subject to prescribed minimum requirements by the FSC in respect of the ratio of total capital to total risk-weighted assets. This requirement applies to the Bank (a wholly owned subsidiary of Manx Financial Group PLC) as a component of Manx Financial Group PLC and has been adhered to throughout the year.

The risk asset ratio of the Bank as a component of Manx Financial Group PLC was 18% (2008: 18%). This was above the minimum prescribed by the FSC.

5. Segmental analysis

Segment information is presented in respect of the Group's business segments. The Directors consider that the Group currently operates in one geographic segment, the Isle of Man and UK. The primary format, business segments, is based on the Group's management and internal reporting structure. The Directors consider that the Group operates in three product orientated segments in addition to its investing activities: Asset and Personal Finance (including provision of HP contracts, finance leases, personal loans and premium finance); Litigation Finance; and a Prepaid Card division, Conister Card Services. The Group ceased to provide new Litigation Finance in June 2007.

Included within personnel expenses in the Consolidated Income Statement is £362,064 (2008: £1,579,000) relating to direct salary costs for Conister Card Services.

For the year ended 31 December 2009

	Asset and Personal Finance £000	Litigation Finance £000	Conister Card Services £000	Investing Activities £000	Total 2009 £000
Net interest income	1,866	253	—	—	2,119
Operating income	1,447	253	223	—	1,923
Provision for impairment	28	(671)	—	—	(643)
Loss before unallocated items	(922)	(468)	(225)	268	(1,347)
Group central costs	—	—	—	—	(1,116)
Loss before specific items					(2,463)
Capital expenditure	526	—	—	—	526
Total assets	56,183	188	199	374	56,944
Total liabilities and equity	56,598	188	158	—	56,944

5. Segmental analysis continued

For the year ended 31 December 2008					
	Asset and Personal Finance £000	Litigation Finance £000	Conister card services £000	Investing Activities £000	Total 2008 £000
Net interest income	3,337	163	88	—	3,588
Operating income	2,842	187	181	—	3,210
Provision for impairment	(948)	(415)	—	—	(1,363)
Loss before unallocated items	(460)	(737)	(3,721)	(610)	(5,528)
Group central costs					(1,099)
Loss before specific items					(6,627)
Capital expenditure	96	—	—	—	96
Total assets	76,425	1,503	158	136	78,222
Total liabilities and equity	76,719	1,503	—	—	78,222

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

6. Interest income

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

7. Interest expense

	2009 £000	2008 £000
Payable to depositors	3,162	3,551
Payable on subordinated loan (note 30)	60	1
	3,222	3,552

8. Allowance for impairment

The charge in respect of specific allowances for impairment comprises:

	2009 £000	2008 £000
Specific impairment allowances made	1,163	1,388
Amounts written off	319	180
Reversal of allowances previously made	(401)	(251)
Recovery of amounts previously made	—	(67)
Recovery of amounts previously written off	(3)	(7)
Total specific provision for impairment	1,078	1,243

The charge in respect of collective allowances for impairment comprises:

	2009 £000	2008 £000
Collective impairment allowances made	35	229
Release of allowances previously made	(470)	(109)
Total collective provision for impairment	(435)	120
Total provision for impairment	643	1,363

9. Restructure costs

Restructure costs comprise: the cost of closure of the UK Conister Card Services operation, the costs of closure of two branch offices in the UK, and the reorganisation of Isle of Man operational processes.

	2009 £000	2008 £000
Closure of UK Conister Card Services operation		
Administration expenses	—	320
Programme costs	—	127
Redundancy costs	101	117
	101	564
Closure of UK branch offices		
Redundancy costs	—	61
Reorganisation of Isle of Man operations process		
Redundancy costs	57	429
Director's ex gratia cost	—	264
Director's share option cost	—	107
	57	800
	158	1,425

The ex gratia and share option costs in prior year relates to Mr J F Linehan.

10. Project costs

	2009 £000	2008 £000
Costs of Conister Card Services sale	—	133
Costs of potential acquisition	—	361
	<u>—</u>	<u>494</u>

11. Depositors' Compensation Scheme

	2009 £000	2008 £000
Provision in respect of Kaupthing Singer & Friedlander (Isle of Man) Limited	150	—
Recovery in respect of Bank of Credit & Commerce International SA	(61)	—
	<u>89</u>	<u>—</u>

On 27 May 2009, the Isle of Man Government Depositors' Compensation Scheme ("the Scheme") was activated in connection with the liquidation of Kaupthing Singer & Friedlander (Isle of Man) Limited. An initial payment of £73,880 was made into the Scheme during the year. In addition, a further provision of £76,120 has been made resulting in a total charge for the year to the comprehensive statement of income of £150,000.

On 3 August 2009, the Bank recovered £61,054 from the Scheme in respect of The Bank of Credit & Commerce International SA, a Luxembourg banking company, the Bank of Credit and Commerce Overseas Limited, a Cayman bank, and various other companies in the BCCI Group, which closed in July 1991.

12. Scheme of Arrangement costs (Prior Year)

Conister Bank Limited, following an Isle of Man Court sanctioned Scheme of Arrangement, became a wholly owned subsidiary of Manx Financial Group PLC with effect from 31 January 2008. The legal and professional expenses attributable to the Scheme of Arrangement in 2008 totalled £45,000. No costs were incurred in 2009.

13. Loss before taxation

The loss before taxation for the year is stated after charging:

	2009 £000	2008 £000
Depreciation	102	77
Loss on sale of fixed assets	2	104
Share option expense	22	315
Directors' remuneration and fees	433	409
Directors' pensions	33	9
Directors' bonuses	12	20
Directors' ex gratia fees	—	264
Auditors' remuneration		
as Auditor current year	75	84
as Auditor, under-accrual for prior year	11	2
non-audit services	108	128
Pension cost defined contribution scheme	122	188
Operating lease rentals for property	92	93

14. Income tax expense

(a) The Group and Company made losses during the year and therefore no change to taxation has been included in the comprehensive statement of income.

(b) Statement of Financial Position at 31 December 2009

As a result of the Group and Company making continuing losses there is no outstanding liability to taxation at the end of the year.

15. Loss per share

	2009 £000	2008 £000
Loss for the year	(2,621)	(18,305)
	Number	Number
Weighted average number of ordinary shares in issue	63,416,450	55,866,457
Basic and diluted loss per share	(4.13)p	(32.8)p

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

The diluted loss per share calculation is based upon loss for the year after taxation and the weighted average of the number of shares in issue after adjustment to assume conversion of all dilutive potential shares. Other than the employee share option scheme, there are no other potentially dilutive instruments.

16. Company loss

The loss on ordinary activities after taxation of the Company is £3,016,000 (2008: £13,288,000).

17. Cash and cash equivalents

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Cash at bank and in hand	3,908	12,989	—	—
Short-term deposits	4,068	7,600	—	—
	7,976	20,589	—	—

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17. Cash and cash equivalents continued

Cash at bank includes an amount of £107,296 (2008: £164,045) representing cheques issued in the course of transmission. The remaining maturity of short-term deposits is as follows:

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Less than 8 days	4,068	7,600	—	—
8 days to less than 1 month	—	—	—	—
	<u>4,068</u>	<u>7,600</u>	<u>—</u>	<u>—</u>

18. Financial assets at fair value through profit or loss

The investment represents shares in Billing Services Group PLC, a UK quoted company, which was elected to be classified as a financial asset at fair value through the profit or loss. The investment is stated at market value. The cost of the shares was £471,000. The unrealised difference between cost and market value has been taken to the income statement. Dividend income of £340,000 has been received from this investment since it was made.

19. Available-for-sale financial instruments

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
UK Government Treasury Bills	9,989	—	—	—
	<u>9,989</u>	<u>—</u>	<u>—</u>	<u>—</u>

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

During the prior year the Group acquired shares in Equity Special Situations Limited (ESS), an AIM listed strategic investment company incorporated in Guernsey. The transaction was done in two stages by way of a share-for-share exchange with a cash top up as detailed below:

Investment in ESS	% Holding	Number of Shares	£000
Additions			
23 June 2008	9.9%	2,042,705	4,453
9 September 2008	8.7%	2,206,090	5,185
Total shareholding	<u>18.6%</u>	<u>4,248,795</u>	<u>9,638</u>
Impairment loss on available-for-sale financial instruments			<u>(9,638)</u>
Carrying value of available-for-sale financial instruments			—

19. Available-for-sale financial instruments continued

Consideration comprised:	Share Premium £000	Share Capital £000	Total £000
Share capital issued to ESS			
23 June 2008: Issue of 5,575,150 ordinary MFG shares at 74p	2,732	1,394	4,126
9 September 2008: Issue of 7,101,798 ordinary MFG shares at 73p	3,409	1,775	5,184
	<u>6,141</u>	<u>3,169</u>	<u>9,310</u>
23 June 2008: Cash paid			<u>328</u>
Total consideration			9,638

On 25 November 2008, the Directors of ESS announced the cancellation of the admission of the ordinary shares in ESS to trading on AIM. ESS had been granted an interim injunction against Landsbanki and its agents, under which Landsbanki was prohibited from attempting to sell certain shares owned by ESS, which were held at Landsbanki as security for a long-term loan facility with ESS. ESS subsequently filed a legal claim against Landsbanki on 24 October 2008 and has been in discussions with certain creditors and other debt providers. The value of the Company's holding in ESS is uncertain, the Board believes it appropriate to fully impair the carrying value of the Company's holding in ESS and carry it at a £nil value. It is however possible that some recovery of value may be made in the future. Legal fees of £76,000 were incurred during 2008 in relation to this matter.

20. Loans and advances to customers

Group	2009			2008		
	Gross Amount £000	Impairment Allowance £000	Carrying Value £000	Gross Amount £000	Impairment Allowance £000	Carrying Value £000
Hire purchase balances	24,058	(1,063)	22,995	30,921	(1,508)	29,413
Finance lease balances	1,407	(285)	1,122	2,436	(247)	2,189
Premium financing	7,198	—	7,198	17,726	(137)	17,589
Litigation funding	2,443	(2,289)	154	3,182	(1,679)	1,503
Unsecured personal loans	5,961	(719)	5,242	5,260	(584)	4,676
Vehicle stocking plans	923	(80)	843	556	(10)	546
	<u>41,990</u>	<u>(4,436)</u>	<u>37,554</u>	<u>60,081</u>	<u>(4,165)</u>	<u>55,916</u>

	2009 £000	2008 £000
Specific allowance for impairment		
Balance at 1 January	3,397	2,262
Specific allowance for impairment made	1,025	1,389
Recoveries	—	(74)
Write-offs	(319)	(180)
Balance at 31 December	4,103	3,397

	2009 £000	2008 £000
Collective allowance for impairment		
Balance at 1 January	768	648
Collective allowance for impairment made	35	229
Release of allowances previously made	(470)	(109)
Balance at 31 December	333	768
Total allowances for impairment	4,436	4,165

Advances on preferential terms are available to all Directors, management and staff. As at 31 December 2009, £161,283 (2008: £82,338) was lent on this basis. In the Group's ordinary course of business, advances may be made to Shareholders but all such advances are made on normal commercial terms.

At the end of the current and prior financial years no loan exposure exceeded 10% of the total capital base of the Group (2008: nil).

20. Loans and advances to customers continued**HP and Finance Lease Receivables**

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

	2009 £000	2008 £000
Gross investment in HP and finance lease receivables		
Less than one year	16,041	18,078
Between one and five years	13,858	21,138
	<u>29,899</u>	<u>39,216</u>
Unearned future income on finance leases	(4,434)	(5,859)
Investment in HP and finance lease receivables net of unearned income	<u>25,465</u>	<u>33,357</u>
The investment in HP and finance lease receivables net of unearned income comprises:	2009 £000	2008 £000
Less than one year	13,662	15,077
Between one and five years	11,803	18,280
Net investment in HP and finance lease receivables	<u>25,465</u>	<u>33,357</u>

21. Property, plant and equipment

Group	Leasehold improvements £000	IT equipment £000	Furniture & equipment £000	Vehicles £000	Total £000
Cost					
As at 1 January 2009	22	154	183	106	465
Additions	7	517	2	—	526
Disposals	—	(2)	(13)	(22)	(37)
As at 31 December 2009	<u>29</u>	<u>669</u>	<u>172</u>	<u>84</u>	<u>954</u>
Depreciation					
As at 1 January 2009	4	98	121	50	273
Provided in the year	3	71	8	20	102
Eliminated on disposals	—	(2)	(12)	(8)	(22)
As at 31 December 2009	<u>7</u>	<u>167</u>	<u>117</u>	<u>62</u>	<u>353</u>
Carrying value at 31 December 2009	<u>22</u>	<u>502</u>	<u>55</u>	<u>22</u>	<u>601</u>
Carrying value at 31 December 2008	18	56	62	56	192

Fixed assets with a net book value of £25,000 (2008: £56,000) are held by Conister Finance & Leasing Ltd. These comprise motor vehicles of £25,000 (2008: £54,000) and furniture and equipment of £nil (2008: £2,000). The depreciation charge in respect of these assets was £15,000 (2008: £16,000).

Fixed assets comprising a motor vehicle with a net book value of £nil (2008: £nil) are held by Conister Legal Management Services Limited. The depreciation charge in respect of this asset was £nil (2008: £3,000).

Fixed assets comprising IT equipment were transferred from Conister Card Services to Manx Financial Group PLC at opening net book value of £8,000 during the financial year.

The depreciation charge in respect of these assets was £2,000 and the closing net book value was £6,000.

Fixed assets with a net book value of £571,000 (2008: £129,000) are held by Conister Bank Limited. These comprise motor vehicles of £nil (2008: £2,000), furniture and equipment of £53,000 (2008: £59,000), leasehold improvements of £22,000 (2008: £19,000) and IT equipment of £496,000 (2008: £49,000).

22. Investment in Group undertakings

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

Carrying value of investments	Nature of business	31 December		Total 2009 £000	Total 2008 £000
		2009 % Holding	Date of incorporation		
Conister Bank Limited	Asset and personal finance	100	5.12.1935	6,191	9,610
TransSend Holdings Limited	Holding Co for prepaid card division	100	5.11.2007	—	—
				6,191	9,610

23. Trade and other receivables

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Trade debtors	34	511	—	15
Prepayments and other debtors	378	504	18	—
Payments in advance for new banking system	—	342	—	—
VAT Recoverable	38	32	6	32
Loans to subsidiary undertakings:				
TransSend Holdings Limited	—	—	—	425
	450	1,389	24	472

24. Customer accounts

	2009 £000	2008 £000
Retail customers: Term deposits	47,994	64,842
Corporate customers: Term deposits	1,550	1,216
	49,544	66,058

Fiduciary deposits

At 31 December 2009 the Bank acted as agent bank to a number of customers, for balances totalling £8,411,145 (2008: £50,863,000). The Bank invests these customer assets with third party banks on their behalf and in return for this service receives a fee. These balances are not included within the balance sheet.

25. Creditors and accrued charges

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Creditors and accruals	780	1,526	192	534
Redundancy costs	—	607	—	391
Closure of UK TransSend operation	—	447	—	127
Subordinated loan (note 30)	500	500	—	—
Short-term employee benefits	2	14	—	7
	1,282	3,094	192	1,059

26. Pension liability

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

The most recent full actuarial valuation was carried out at 1 April 2007 showed that the market value of the Scheme's assets was £952,000, representing 75.9% of the benefits that had accrued to members, after allowing for expected future increases in earnings. As required by IAS19 this valuation has been updated by the actuary as at 31 December 2009.

The actuarial assumptions used to calculate scheme liabilities under IAS19 are as follows:

	2009 %	2008 %	2007 %	2006 %	2005 %
Rate of increase in salaries	3.80	2.80	3.40	3.10	2.90
Rate of increase in pension in payment:					
— service up to 5 April 1997	—	—	—	—	—
— service from 6 April 1997 to 13 September 2005	3.50	2.70	3.40	3.10	2.80
— service from 14 September 2005	2.30	2.00	2.40	2.30	2.00
Discount rate applied to scheme liabilities	5.70	6.70	5.80	5.10	4.90
Return on assets	5.95	6.60	7.90	2.90	2.90

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

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26. Pension liability continued

The amounts recognised in the Consolidated Balance Sheet are as follows:

	2009	2008
	£000	£000
Total underfunding in funded plans recognised as a liability		
Fair value of plan assets	1,325	827
Present value of funded obligations	<u>(1,391)</u>	<u>(1,141)</u>
	(66)	(314)

Plan assets consist of the following:

	2009	2008
	%	%
Equity securities	35	45
Corporate bonds	24	39
Government bonds	34	—
Property	—	—
Cash	5	6
Other	<u>2</u>	<u>10</u>
	100	100

	2009	2008
	£000	£000
Movement in the liability for defined benefit obligations:		
Opening defined benefit obligations at 1 January	1,141	1,319
Benefits paid by the plan	(55)	(55)
Current service cost	—	—
Interest on obligations	75	75
Actuarial loss/(gain)	<u>230</u>	<u>(198)</u>
Liability for defined benefit obligations at 31 December	1,391	1,141

	2009	2008
	£000	£000
Movement in plan assets:		
Opening fair value of plan assets at 1 January	827	1,014
Expected return on assets	59	81
Contribution by employer	375	28
Actuarial gain/(loss)	119	(241)
Benefits paid	<u>(55)</u>	<u>(55)</u>
Closing fair value of plan assets at 31 December	1,325	827

26. Pension liability continued

	2009	2008
	£000	£000
Expense recognised in income statement:		
Current service costs	—	—
Interest on obligation	75	75
Expected return on plan assets	(59)	(81)
Total included in personnel costs	<u>16</u>	<u>(6)</u>
Actual (return)/loss on plan assets	(178)	160
	2009	2008
	£000	£000
Income recognised in statement of recognised income and expense:		
Actuarial gain/(loss) on plan assets	119	(241)
Actuarial (loss)/gain on defined benefit obligations	(230)	198
	<u>(111)</u>	<u>(43)</u>

The Bank also paid an ex gratia pension to one former employee amounting to £1,320 in 2008.

27. Called up share capital and share premium

Authorised: Ordinary shares of 25p each	Number	£000
As at 31 December 2009	<u>150,000,000</u>	<u>37,500</u>
As at 31 December 2008	150,000,000	37,500
Issued and fully paid: Ordinary shares of 25p each	Number	£000
As at 31 December 2009	<u>63,416,450</u>	<u>15,854</u>
As at 31 December 2008	63,416,450	15,854

27. Called up share capital and share premium continued

Dates Exercisable	Executive Plan Options			Exercise Price	Number of ordinary 25p shares
Grant date	Performance Conditions	From	To		
On 9 June 2003	Fully vested	9 June 2009	9 Dec 2013	34p	2,092,500
Balance at 31 December 2008					59,000
Lapsed					<u>(22,500)</u>
Balance at 31 December 2009					36,500
On 28 April 2004	Fully vested	28 Apr 2004	27 Apr 2014	29p	350,000
Balance at 31 December 2008					111,000
Lapsed					<u>(20,000)</u>
Balance at 31 December 2009					91,000
On 25 April 2005	Fully vested	25 Apr 2005	24 Apr 2015	32p	205,500
Balance at 31 December 2008 and at 31 December 2009					32,500
On 1 November 2006	(a)	1 Nov 2006	31 Oct 2011	54.1p	1,375,000
Balance at 31 December 2008					1,375,000
Lapsed					<u>(1,250,000)</u>
Balance at 31 December 2009					125,000
On 6 July 2007	(b)	6 July 2007	6 July 2017	65p	625,000
Balance at 31 December 2008					625,000
Lapsed					<u>(475,000)</u>
Balance at 31 December 2009					150,000
On 1 February 2008	(c)	1 Feb 2008	1 Feb 2018	70p	1,275,000
Balance at 31 December 2008					1,275,000
Lapsed					<u>(1,075,000)</u>
Balance at 31 December 2009					200,000

27. Called up share capital and share premium continued

Performance conditions attached to share options that have not fully vested

(a) The options granted on 1 November 2006 will vest if:

- the share price of 100p is achieved within 5 years from the date of grant (i.e. 1 November 2011) or
- earnings per share (EPS) as measured in the 2008 Audited Financial Statements of 4.5p per share as calculated in accordance with prevailing accounting standards.

No shares resulting from the exercise of an option may be sold less than four years from the date of grant (i.e. 1 November 2010). The share price target will be deemed achieved only if the mean average of the mid-market share price over 30 consecutive calendar days is at least equal to 100p.

On 25 April 2008 dispensation over 1,000,000 2006 options was granted such that they vested, were exercisable and tradable: 500,000 at a price of 54.1p and 500,000 at a price of 65p.

(b) The options granted on 6 July 2007 will vest as follows:

- 30% on the first anniversary of grant (i.e. 6 July 2008)
- 30% on the second anniversary of grant (i.e. 6 July 2009)
- 40% on the third anniversary of grant (i.e. 6 July 2010)

No shares resulting from the exercise of an option may be sold by the employee until he/she has worked a minimum of three years for Manx Financial Group PLC or a subsidiary company from the date of grant (i.e. 6 July 2010).

(c) The options granted on 1 February 2008 will vest if a mid market share price of 175p, over 30 consecutive days is achieved within three years from the date of the grant.

No shares resulting from the exercise of an option may be sold unless the individual is an employee of the Company on 1 February 2011.

27. Called up share capital and share premium continued

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

	9 June 2003	28 April 2004	25 April 2005	1 November 2006*	6 July 2007 (Tranche 1)
Fair value at date of grant	0.08	0.03	0.03	0.14	0.24
Share price	0.34	0.29	0.32	0.55	0.60
Exercise price	0.34	0.29	0.32	0.54	0.65
Expected volatility	30%	30%	30%	35%	36%
Option life	10	10	10	10	10
Expected dividends	0.00%	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate (based on government bonds)	4.11%	4.96%	4.62%	4.40%	5.71%
Forfeiture rate	0%	30%	60%	100%	16%

* modified on 25 April 2008

	6 July 2007 (Tranche 2)	9 July 2007 (Tranche 3)	1 February 2008
Fair value at date of grant	0.27	0.31	0.31
Share price	0.64	0.67	0.77
Exercise price	0.65	0.65	0.81
Expected volatility	36%	36%	35%
Option life	10	10	10
Expected dividends	0.00%	0.00%	0.00%
Risk-free interest rate (based on government bonds)	5.71%	5.71%	4.28%
Forfeiture rate	0%	0%	0%

	2009 £000	2008 £000
Expense in comprehensive statement of income		
Share options granted in:		
2003	—	10
2004	—	1
2005	—	1
2006	1	199
2007	16	64
2008	5	40
	22	315

28. Analysis of changes in financing during the year

	2009	2008
Analysis of changes in financing during the year	£000	£000
Opening balance	22,496	—
Issue of shares by way of scheme of arrangement	—	12,686
Issue of shares by way of share for share exchange	—	3,169
— share capital	—	6,141
— share premium	—	500
Issue of subordinated liabilities	—	500
Closing balance	22,496	22,496

The closing balance is represented by £15,854,000 share capital, £6,142,000 share premium and £500,000 subordinated liabilities.

29. Regulator

Conister Bank Limited is licensed to undertake banking activity by the Isle of Man Government Financial Supervision Commission.

30. Related party transactions**NewLaw**

“Loans and advances to customers” include a loan due to Conister Bank Limited from NewLaw, a UK firm of solicitors. The loan carries interest at 7.3% per annum and is repayable over 36 months. As at 31 December 2009 the balance on the loan was £139,084 (31 December 2008: £305,986). NewLaw is a related party of Mr Arron Banks who is a Non-Executive Director and significant Shareholder. The loan is secured by a personal guarantee from Mr Banks.

Premium finance

Conister Bank Limited has an agreement with Group Direct Limited, a UK insurance broker, to provide premium financing of insurance policies brokered by Group Direct. The majority of these policies are issued by Southern Rock Insurance Company Limited. In 2009 the Group provided financing of £19 million (31 December 2008: £30.8 million), earning interest income of £1,024,000 (31 December 2008: £1,280,000). Group Direct Limited and Southern Rock Insurance Company Limited are related parties of Mr Banks.

Cash deposits

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

J Mellon and a Company related to him (Executive Chairman and Non-Executive Director)

A Company related to D Eke (Chief Executive Officer)

J Hemuss (Conister Trust Limited, Executive Director)

D Grant (Executive Director)

Normal commercial interest rates are paid on these deposits.

Subordinated Loan

On 22 December 2008 the Bank entered into a subordinated loan agreement for £500,000 with J Mellon. The loan was unsecured, bore interest on commercial terms and no repayment of the loan was necessary in the first 5 years. This loan represented a Related Party Transaction in accordance with AIM Rule 13. Accordingly, the Independent Directors consulted with the Group’s Nominated Adviser, considered the terms of the transaction to be fair and reasonable in so far as the shareholders of the Company were concerned.

On 3 March 2010 this loan was repaid by the Bank and the capital formed part of the convertible loan arrangement as detailed in note 34.

Staff loans

Details of staff loans are given in note 20 to the financial statements.

30. Related party transactions continued

Key management personnel (including Executive Directors') compensation

	2009 £000	2008 £000
Short-term employee benefits	729	1,640
Share-based payments	9	211
Total	738	1,851

Short-term employee benefits include £nil (2008: £655,000) in respect of redundancy and settlement costs as a result of the reorganisation of Isle of Man operational processes (note 9).

The 2008 share-based payment charge includes £107,000 in respect of the modifications to the share options held by J F Linehan.

31. Operating Leases

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

	2009 £000	2008 £000
Less than one year	86	86
Between one and five years	301	387
More than five years	—	—
Total operating lease rentals payable	387	473

Restructure costs in the prior year as detailed in note 9 to the financial statements, include a provision of £185,000 for rent and rates for the closed UK office previously used by Conister Card Services.

32. Litigation

Manx Financial Group PLC's wholly owned subsidiary, Conister Bank Limited, entered into litigation with a firm of solicitors involved in litigation finance, following their refusal to repay loans made to a number of their clients. Mediation occurred on 6 May 2009 and agreement was reached between the parties to settle this matter on 20 May 2009. As at 31 December 2009 the firm of solicitors had no outstanding loan balance (2008: £387,000).

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

33. Transfer of investment in Conister Card Services to MFG

On 31 January 2008, following the Isle of Man Court sanctioned Scheme of Arrangement, the Bank became a wholly owned subsidiary of MFG and ceased to govern the financial and operating policies of Conister Card Services, which comprises TransSend Holdings Limited, TransSend Payments Limited and Conister Card Services Limited (formerly TransSend (IOM) Limited) with MFG becoming the controlling party. The net assets were transferred to MFG at net book value.

34. Post-balance sheet events

On 15 January 2010 the Company converted to a 2006 company as defined by Isle of Man company law.

On 3 March 2010 MFG entered into a convertible loan agreement with J Mellon for £1.25 million. The loan is convertible into shares from the first anniversary of the loan drawdown at £0.09 per share and bears interest until conversion at a rate of 9%. MFG also entered into an identical agreement with Rock Holdings Limited (a company linked to A Banks) for £0.46 million on 26 March 2010. These loans represent a Related Party Transaction in accordance with AIM Rule 13. Accordingly, the Independent Directors, having consulted with the Group's Nominated Adviser, consider the terms of the transaction to be fair and reasonable in so far as the shareholders of the Company are concerned.



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