MANX FINANCIAL
GROUP PLC

ANNUAL REPORT 2010

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) is an AIM listed company which holds the entire issued share capital of a suite of financial service companies based in the UK and the Isle of Man. These companies offer financial services to both retail and commercial customers. MFG's strategy is to grow organically and through strategic acquisition to further augment the range of services it offers.

The wholly owned subsidiaries are:

- Conister Bank Limited
- Conister Card Services Limited
- Edgewater Associates Limited
- ECF Asset Finance Plc

Conister Bank Limited (CBL) is a licensed independent bank in the Isle of Man and a full member of the MasterCard® network and the Isle of Man's Association of Licensed Banks.

Since its inception in 1935, CBL, has assisted successive generations by providing a variety of financial products and services, including saving accounts, fiduciary deposits, asset financing, car loans, personal loans, block discounting and other specialist secured credit facilities to both the Isle of Man and the UK.

Conister Card Services Limited (CCS) is the Group's prepaid card division providing business clients with payment solutions that are cost-effective and create new revenue opportunities. CCS has well in excess of 100,000 MasterCard® prepaid cards in issue.

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Edgewater Associates Limited (EWA) is one of the pre-eminent independent financial advisers in the Isle of Man, with offices in both Douglas and Ramsey, and provides a bespoke and personal service to Isle of Man residents and to the Group's business and personal customers. EWA was acquired by the Group on 30 July 2010.

Edgewater specialise in the areas of mortgages, wealth management and retirement planning and combines superior service with extensive local knowledge.

ECF Asset Finance Plc (ECF) was acquired by MFG on 20 November 2010 and was a UK based core asset lender to Small and Medium sized Entities (SMEs). ECF will become an exclusive broker to CBL in this market sector.

Financial Highlights

MFG, consolidated

- Financial performance improved by £2.4 million, 92.3%
- Total equity increased by 41.0% to £8.6 million (2009: £6.1 million)
- Total assets increased by 13.5% to £64.6 million (2009: £56.9 million)
- £3.6 million of new capital and long term loans raised with £0.5 million of more expensive debt retired
- Completed two strategic acquisitions in 2010

Conister Bank Limited

- Recorded a profit of £1.0 million (2009: a loss of £1.2 million)
- Lent balances increased by 29.8% to £48.8 million (2009: £37.6 million)
- Deposits grew by 6.5% to £52.7 million (2009: £49.5 million) and cost of funds reduced

Conister Card Services Limited

- Record financial performance by posting a profit of £0.1 million (2009: a loss of £0.4 million)
- 124,280 prepaid cards in issue (2009: 73,150), an increase of 70.0%
- Cost base reduced further with the expiry of expensive processing and utility contracts

Edgewater Associates Limited

- Acquired 30 July 2010
- Recorded a profit of £0.2 million (2009: equivalent not available)
- Profitable every month post-acquisition

ECF Asset Finance Plc

- Acquired 20 November 2010
- Integration nearing completion
- Business volumes in line with expectations

Operational Highlights

- Successfully installed a new lending system which will ensure future growth is not restricted by internal infrastructure
- Underwriting, Collections and Compliance teams have been bolstered to reflect the expected increase in future lending

Jim Mellon
Executive Chairman

I am pleased to report a year of positive momentum for your Group, as I suggested would be the case in last year's review.

Review of performance

Despite an uncertain economic backdrop we made significant progress towards our goal of creating a Group with a suite of financial services to both the retail and corporate markets. In this respect, we have made two important acquisitions and further strengthened the Group's capital base in the past twelve months.

Manx Financial Group PLC

During the financial year we acquired Edgewater Associates Limited, a leading Isle of Man based Independent Financial Advisor. This reduces the Group's reliance on interest income and also provides an array of complementary propositions to Conister Bank's customer base. The company has outperformed our expectations since its purchase and has an excellent pipeline of opportunities. We also acquired ECF Asset Finance PLC which will provide its sister company, Conister Bank, with the experience and brand to access the lucrative UK Small and Medium sized Entities (SMEs) market. The business has historically lent for business critical assets which are a natural adjunct to Conister Bank's asset backed lending philosophy. With these acquisitions we now have sufficient mass to allow for future acquisitions to be made without the need of further overhead — which will improve the profitability of each incremental investment.

During the year we also successfully raised two tranches of capital long term loans totalling £3.6 million and retired £0.5 million of more expensive subordinated debt. As I wrote in my statement last year we maintained fairness throughout the whole shareholder base in this process.

I am pleased to report that these structural improvements will have benefits both in the short and medium term. In the short term, even including the costs of acquiring the new assets, financial performance improved by £2.4 million as the Group recorded a small loss of £0.2 million (2009: a loss of £2.6 million).

Conister Bank Limited

It is pleasing to report the Bank recorded a profit of just over £1.0 million for the financial period ended 31 December 2010 (2009: a loss of £1.2 million) an improvement of £2.2 million driven by a mixture of increased operating income and the application of the amended provisioning policy. The balance sheet strengthened with net assets increasing by £1.0 million to £9.3 million (2009: £8.3 million).

The Bank continues to maximise capital efficiency and it has also improved its cash management by using surpluses to grow the net loan book to £48.8 million (2009: £37.6 million).This will deliver improved interest income levels in 2011 and beyond as our deferred income increased by £2.5 million to £7.1 million (2009: £4.6 million). This loan book growth has been achieved by increasing our sales teams in our traditional markets and by the introduction of new revenue streams such as Block Discounting, outsourcing to Marsh Finance, specialist car benefit schemes and the acquisition of ECF Asset Finance PLC's loan book in November 2010.

We remain funded solely by retail deposits and as such our funding model is not exposed to the same market pressures as our competitors, who are now forecast to find their cost of funds rising. Our deposit base has again proved incredibly loyal with the year end balance being £52.7 million (2009: £49.5 million).

The development of new lending lines and new distribution agreements within the Bank has diversified our loan portfolio across a greater number of asset types ensuring our exposure to individual market and geographic segments is well controlled. We have been able to maintain our cost of funding which has meant margins have remained stable throughout the year.

During the year we enhanced our credit control and underwriting processes which in turn allowed the Board of Directors to consider the adequacy of the existing provisioning procedures. The output of this review was twofold, the asset backed lending book's provisioning policy was amended to take greater cognisance of each loan's underlying security and the Litigation Finance provisioning now more accurately reflects the significant progress made this year in settling the outstanding debtor. The impact of these changes in policy was to decrease total provisions in this area. Balance sheet total provisions have increased to £4.7 million (2009: £4.4 million) driven by the ECF Asset Finance PLC loan book acquisition.

Conister Card Services Limited

The re-organisation of our cards business is starting to flow through to its financial performance; indeed this business segment recorded its first ever full year profit in 2010 of £0.1 million (2009: a loss of £0.4 million). The business will endeavour to continue to develop new programme managers with profitable contracts and will find further ways to leverage the Bank's MasterCard® licence.

Edgewater Associates Limited

I am pleased to report that the integration process is now complete and I would like to thank all the staff involved for their professional and enthusiastic approach to this project. In the period post acquisition this subsidiary has generated a profit of £0.2 million (2009 comparative not available) which was in excess of our pre-acquisition forecast. Marketing to the enlarged customer base has now commenced and initial results are very encouraging. Good growth is expected from this business through both our unique revenue strategy and by increasing the number of independent financial advisers we employ.

ECF Asset Finance PLC
The transformation of the business to that of an exclusive broker for Conister Bank has commenced and is proceeding as planned. This business has a good pedigree of providing asset backed finance opportunities for UK based SMEs and of underwriting these type of deals to provide the necessary level of security to the lender. This, alongside their collections team, will bring greater resilience to our existing UK based lending team and together we have created sufficient mass to allow us to compete in this market sector.

Customer Services and Our People
As part of our drive to continually improve processes, controls and customer service standards a new asset finance lending system was installed at Conister Bank, which will allow secondary processes and workflows also to be overhauled. The new system, accompanied by our strengthened Risk and Compliance team, will ensure our lending processes can adequately match our expected growth in lending propositions.

Our staff have all contributed to the improved performance of the Group. Not only have we integrated a new lending system; ensured continued compliance with Consumer Credit Act regulations in the UK; developed new business segments during 2010; and integrated new businesses; our people have achieved all of this whilst producing significant year on year growth and for this I would like to thank them all for their efforts.

Outlook
Despite the currently unpredictable events in the Middle East and in Japan the outlook for the Bank, with our Isle of Man and UK focus, is now very encouraging. This, alongside the continued withdrawal of major banking groups from our core lending markets as they struggle to manage regulatory pressures, market contraction, and a continued funding squeeze, presents us with significant opportunities which we are seizing.

As customers continue to pay down debt at record levels it may become harder to grow our book organically. To this end we continue to scan the UK market for opportunities to take on new loan books from Banks and Finance Houses who have been unable to secure new or existing funding lines. These are NOT distressed books of business and will complement our existing asset base. I expect 2011 to be another year of remarkable growth for your Group.

I thank all the staff of MFG for their focus, dedication and enthusiasm on behalf of their customers and shareholders.

Jim Mellon
Executive Chairman
29 March 2011

Jim Mellon (54)‡

Executive Chairman

Jim 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 Group 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, quoted on the Hong Kong Stock Exchange, 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 and quoted on the London AIM market, which has approximately US$ 3.48 billion of assets under management.

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

Denham Eke (59)‡

Chief Executive Officer

Denham Eke began his career in stockbroking before moving into corporate planning for a major international insurance broker. He is a director of many years' standing of both public and private companies involved in the financial services, property, mining, and manufacturing sectors. On the Isle of Man, he is Chairman of Webis Holdings PLC, Chief Operating Officer of Speymill PLC, Finance Director of Emerging Metals Limited and Finance Director of Copper Development Corporation - all quoted on the London AIM market. He is also Managing Director of Burnbrae Group Limited.

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

Douglas Grant (46)‡

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 (48)‡

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.

Don McCrickard (74)‡

Non-Executive Director

From 1975 to 1983 Don 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. He 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 on 2 November 2007.

Arron Banks (45)‡

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.

* Member of the Audit, Risk and Compliance Committee
† Member of the Remuneration Committee
‡ Member of Nominations Committee

Alan Clarke (60)*†‡

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 on 2 November 2007. Chairman of the Audit, Risk and Compliance Committee and Chairman of the Remuneration Committee.

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 Deputy Chairman of commercial property investment companies Chellbrook Properties plc and Mountstephen Investments Limited.

Appointment
Appointed to the Board on 12 February 2009.

Oliver Hare (46) ‡

Non-Executive Director

Oliver Hare is currently Vice Chairman of Helvetica Wealth Management Partners S.A. in Geneva. Before founding Helvetica Wealth Management Partners in 2004, he was a Managing Director at Banque Piguet, a boutique Private Bank in Geneva. Prior to this he was a Managing Director within the Equities division of UBS (formerly S.G. Warburg), where he worked for over 15 years. His career started in UK equity trading and sales before he took on management positions, including taking charge of an equity sales team in Madrid, then the servicing of institutional clients and product distribution in Paris, and, finally being responsible for institutional equity and derivatives distribution in Switzerland. He is also a partner of Unicos Partnership LLP in Singapore.

Appointment
Appointed to the Board on 14 January 2011.

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

Long & Humphrey
The Old Courthouse
Athol Street, Douglas
Isle of Man, IM1 1LD.

Principal Bankers
Barclays Private Clients
International Limited
Barclays House
Victoria Street, Douglas
Isle of Man, IM99 1AJ

Lloyds TSB Offshore
PO Box 103, Peveril Buildings
Peveril Square, Douglas
Isle of Man, IM99 2LB.

Consulting Actuaries
BWCI Consulting Limited
Albert House, South Esplanade
St Peter Port
Guernsey, GY1 3BY

Pension Fund Investment Manager
Close International Asset
Management Ltd
PO Box 373, Kingsgate House
55 Esplanade, St Helier
Jersey, JE4 8UQ

Nominated Adviser
Beaumont Cornish Limited
2nd Floor
Bowman House
29 Wilson Street
London, EC2M 2SJ

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 2010.

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, wealth management, 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.

On 31 July 2010 the Company acquired Edgewater Associates Limited and on 20 November 2010 the Company purchased ECF Asset Finance Plc, see note 20 for further details.

Conister Bank 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.

Edgewater Associates Limited is authorised by the Isle of Man Financial Supervision Commission under section 7 of the Financial Services Act 2008 to conduct investment business as a class 2, sub-classes (3) and (7) licence holder.

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 16. The Directors do not recommend the payment of a dividend (2009: nil).

Share capital

Particulars of the authorised and issued share capital of the Company are set out in note 26 to the financial statements.

Significant shareholdings

The number of shares held and the percentage of the issued shares which that number represented as at 14 February 2011 are:

	Number	**%**
Burnbrae Limited	16,000,000	18.14
Rene Nominees (IOM) Limited	14,899,825	16.90
Lynchwood Nominees Limited	8,103,412	9.19
J M Finn Nominees Limited	4,895,944	5.55
Island Farms Limited	4,222,319	4.79
David Hathersich-Jones	3,035,714	3.44
Royal Bank of Canada Europe Limited	2,873,000	3.26
Vidacos Nominees Limited	2,807,253	3.18
HSBC Global Custody Nominee (UK) Limited	2,665,769	3.02

The Directors are not aware of any other individual holding of greater than 3% as at 14 February 2011.

Directors and Directors' share interests

Details of current Directors are set out on pages 4 and 5. Details of changes in Directors in the year are shown below:

Ilyas Khan resigned on 14 December 2010.

Simon Hull resigned on 11 March 2011.

Oliver Hare was appointed on 14 January 2011.

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

	Number 31/12/10	Number 31/12/09
Jim Mellon*	**17,085,332**	12,625,000
Arron Banks†	**14,899,825**	8,654,645
Alan Clarke	**52,149**	39,112
Oliver Hare¶	**751,212**	—
Douglas Grant	**580,821**	100,000
David Gibson^	**178,853**	70,000
Don McCrickard>	**66,666**	50,000

* Burnbrae Limited holds 16,000,000 Ordinary Shares. Jim Mellon, Executive Chairman of MFG, is a director of Burnbrae Limited. Burnbrae Limited is wholly owned by a trustee of a settlement of which Jim Mellon has a life interest. Denham Eke, CEO of MFG, is also a director of Burnbrae Limited. Pershing Nominees Limited holds 418,666 Ordinary Shares on trust for Jim Mellon. Jim Mellon holds 666,666 Ordinary Shares in his own name.

† Rene Nominees Limited (IOM) Limited holds 6,750,799 Ordinary Shares on trust for Southern Rock Insurance Company Limited, 7,038,193 Ordinary Shares on trust for Rock Holdings Limited and 1,110,833 Ordinary Shares on trust for Arron Banks (1,077,500 Ordinary Shares held on trust for his SIPP and 33,333 directly).

Arron Banks, a Director of the Company is beneficially interested in 51% of the issued share capital of Rock Holdings Limited and is beneficially interest in 45.8% of the issued share capital of Southern Rock Insurance Company Limited. Arron Banks is a director of Rock Holdings Limited and Southern Rock Insurance Company.

¶ Comprises 751,212 Ordinary Shares held by HSBC Global Custody Nominee (UK) Limited on trust for Oliver Hare.

^ Comprises 178,853 Ordinary Shares held by TD Waterhouse Nominees Limited on trust for David Gibson.

> Comprises 66,666 Ordinary Shares held by Hargreaves Landsdown Nominees Limited on trust for Don McCrickard.

Directors' liability insurance
The Group maintains insurance cover for Directors' potential liability.

Fixed assets
The movement in fixed assets during the year is set out in note 19 to the financial statements.

Staff
At 31 December 2010 there were 82 members of staff (2009: 39), 9 of whom were part-time (2009: 7).

Investments in subsidiaries
Investments in the Company's subsidiaries are disclosed in note 19 to the financial statements.

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

Corporate governance
The Combined Code ("Code") sets out standards of good practice in relation to issues such as Board composition and development, remuneration, accountability and audit and relations with Shareholders. As an AIM listed Company, MFG materially complies with the provisions of the Code to the extent which is appropriate to the Company's nature and scale of operations.

The Board of Directors
The Board currently consists of nine directors. Five of these are Non-Executive Directors and four are Executive Directors, including the Chairman. Ilyas Khan resigned as a Non-Executive Director in December 2010 due to other professional commitments and Simon Hull resigned as an Executive Director in March 2011 to further develop his banking career. Oliver Hare was also appointed as a Non-Executive Director in January 2011. The role of Executive Chairman is undertaken by Jim Mellon and the role of Chief Executive by Denham Eke. Brief biographical details of the directors are provided on pages 4 and 5 of the Report and Accounts.

Of the five Non-Executive Directors four are considered independent. These are Alan Clarke, David Gibson, Don McCrickard and Oliver Hare. The fifth, Arron Banks is not considered independent as he has a significant interest in the issued Ordinary Share capital of the Company and he was CEO from April 2008 to February 2009.

The Company's Articles of Association require that all Directors seek election by Shareholders at the first Annual General Meeting following their appointment and all Directors seek re-election at least every three years.

The Board of Directors meets at least once a quarter and more often if required and its responsibilities include:

- Strategy and management of the Company including the long-term objectives and commercial strategy.
- Approval of the annual operational and capital expenditure budgets.
- Oversight of Group operations.
- Changes to structure and capital.
- The maintenance of effective financial reporting and controls.
- Ensuring maintenance of a sound system of internal control and risk management.
- Approval of major capital projects.
- Communication with Shareholders.

It is within the power of the Board, unless expressly forbidden by the articles of association or statute, to delegate authority to a duly authorised committee or a member of the Executive. Typically this would relate to operational issues or processes which are within agreed policy and not of strategic impact.

The Board has implemented a share dealing policy for the Directors and applicable employees of all Group entities requiring observance of AIM rules, the Model Code and the Takeover Code requirements.

All Non-Executive Directors may take independent professional advice at the Company's expense in order to fulfil their duties.

Risk Management and Internal Control
The MFG risk management systems are designed to provide assurance that risk is appropriately identified and effectively managed. The Board has overall responsibility for risk management and reviewing the effectiveness of internal controls with assistance from the Audit, Risk & Compliance Committee. The Executive is responsible for the implementation of Board strategies and the maintenance of effective systems of control.

Board Committees
The Board has established three committees, The Audit, Risk & Compliance Committee, The Remuneration Committee and The Nomination Committee. The duties of each are formally delegated by the Board and are detailed in specific Terms of Reference approved by the Board each year. Copies of the Terms of Reference are on the MFG and subsidiary websites www.mfg.im.

The Audit, Risk & Compliance Committee
The Audit, Risk & Compliance Committee meets quarterly or more often as required. It is responsible for assisting the Board to discharge its responsibilities relating to accounting policies, internal control and financial reporting. The Committee members, Alan Clarke (Chairman) and David Gibson, are qualified accountants and both of whom are independent Non-Executive Directors with recent and relevant financial experience.

The external Auditors, Executive Directors and Senior Managers are invited to attend meetings as appropriate, while the external Auditors and the Internal and Audit and Compliance functions have unfettered access to Committee members.

The Audit, Risk & Compliance Committee also monitors the provision of non-audit services by the external auditor to ensure the provision of such services does not impair the external Auditors' independence of objectivity.

The Remuneration Committee

Refer to Directors' Remuneration Report on page 9 for further details.

The Nomination Committee

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.

By order of the Board

Lesley Crossley
Company Secretary
29 March 2011

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 Remuneration Committee is constituted in accordance with the recommendations of the Combined Code. It comprises two Independent Non-Executive Directors, Alan Clarke (Chairman) and David Gibson who was appointed to the Committee following the resignation of Ilyas Khan in December 2010. 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 currently receive benefits-in-kind.

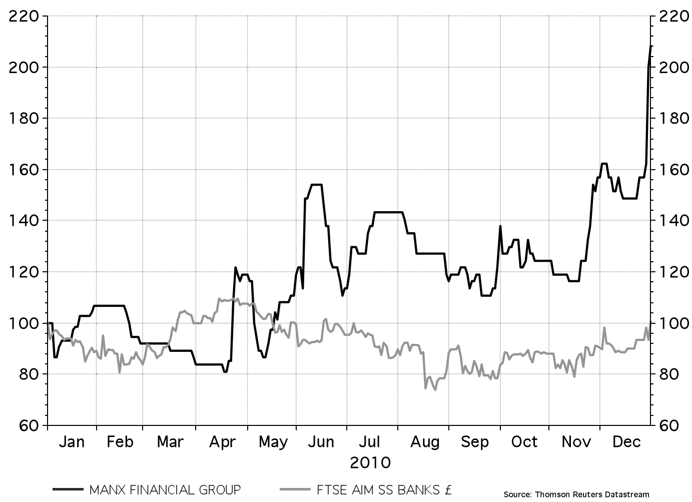
Annual bonus payment
The Committee believes that any incentive compensation awarded should be aligned to the interests of the Company's Shareholders and that the principal measure of their interest is total Shareholder return. Account is also taken of the relative success of the different parts of the 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 26 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 AIM Super Sector Bank Index to give an indication of Shareholder return. The FTSE AIM Super Sector Bank Index is a broadly based index of Shareholder return. The information provided covers the year from January 2010 to December 2010.



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

Directors' emoluments

Executive	Remuneration/ Fees £	Bonus £	Pension £	**2010 Total £**	2009 Total £
Chairman					
Jim Mellon	25,000	—	—	**25,000**	25,000
Executive					
Arron Banks	—	—	—	**—**	8,333
Denham Eke	25,000	—	—	**25,000**	25,000
Douglas Grant	129,167	12,500*	12,917	**154,584**	—
Simon Hull	137,000	13,700*	13,700	**164,400**	143,141
Nick Sheard	86,400	7,400	8,140	**101,940**	91,464
Non-Executive					
Arron Banks	12,500	—	—	**12,500**	11,458
Alan Clarke	37,500	—	—	**37,500**	37,500
David Gibson	37,500	—	—	**37,500**	36,458
Ilyas Khan	12,500	—	—	**12,500**	12,500
Don McCrickard	37,500	—	—	**37,500**	37,500
Aggregate emoluments	540,067	33,600	34,757	**608,424**	428,354

* See note 26 for further details.

Approval
This report was approved by the Board of Directors on 29 March 2011 and signed on its behalf by:

Alan Clarke
Chairman of the Remuneration Committee
29 March 2011

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 financial statements in accordance with International Financial Reporting Standards.

The 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 Company for that period.

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

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

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time its financial position. 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.

Report of the Independent Auditors, KPMG Audit LLC, to the members of Manx Financial Group PLC

We have audited the financial statements of Manx Financial Group PLC for the year ended 31 December 2010 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group Statement of Cash Flows and the Group and Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs).

This report is made solely to the Company's 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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Parent Company's affairs as at 31 December 2010 and of the Group's loss for the year then ended; and
- have been properly prepared in accordance with IFRSs.

KPMG Audit LLC
Chartered Accountants

29 March 2011

Heritage Court
41 Athol Street
Douglas
Isle of Man
IM99 1HN

For the year ended 31 December	Notes	**2010 £000**	2009 £000
Interest income	6	**5,103**	5,341
Interest expense	7	**(1,866)**	(3,222)
Net interest income		**3,237**	2,119
Fee and commission income		**654**	9
Fee and commission expense		**(700)**	(459)
Net fee and commission expense		**(46)**	(450)
Net trading income		**3,191**	1,669
Other operating income		**1,041**	871
Programme costs		**(449)**	(591)
Foreign exchange gain/(loss)		**12**	(26)
Operating income		**3,795**	1,923
Personnel expenses		**(2,713)**	(2,425)
Depreciation	19	**(163)**	(102)
Other expenses		**(1,688)**	(1,395)
Provision for impairment of loan assets	8	**1,027**	(643)
Depositors' Compensation Scheme	10	**2**	(89)
Realised gains on available-for-sale investments	17	**26**	30
Unrealised (loss)/gain on financial assets carried at fair value	16	**(200)**	238
Profit/(loss) before specific items	11	**86**	(2,463)
Acquisition and associated restructuring costs	9	**(274)**	(158)
Loss before income tax expense		**(188)**	(2,621)
Income tax expense	12	**—**	—
Loss for the year		**(188)**	(2,621)
Other comprehensive income			
Available-for-sale gains taken to equity	17	**—**	6
Actuarial gain/(loss) on defined benefit pension scheme	25	**5**	(111)
Total comprehensive loss for the period attributable to owners		**(183)**	(2,726)
Basic and diluted loss per share (pence)	13	**(0.24)**	(4.13)

The notes on pages 17 to 49 form part of these Financial Statements.

As at 31 December	Notes	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
Assets					
Cash and cash equivalents	15	**4,795**	7,976	**—**	—
Financial assets at a fair value through profit or loss	16	**174**	374	**174**	—
Available-for-sale financial instruments	17	**7,292**	9,989	**—**	—
Loans and advances to customers	18	**48,678**	37,554	**—**	—
Commissions receivable		**237**	—	**—**	—
Property, plant and equipment	19	**760**	601	**—**	6
Investment in Group undertakings	20	**—**	—	**12,067**	10,067
Trade and other receivables	21	**449**	450	**15**	24
Goodwill	20	**2,203**	—	**—**	—
Total assets		**64,588**	56,944	**12,256**	10,097
Liabilities					
Customer accounts	22	**52,745**	49,544	**—**	—
Creditors and accrued charges	23	**978**	1,282	**209**	192
Amounts owed to Group undertakings		**—**	—	**2,418**	3,876
Convertible loan notes	24	**1,710**	—	**1,710**	—
Deferred consideration	20	**475**	—	**475**	—
Pension liability	25	**60**	66	**—**	—
Total liabilities		**55,968**	50,892	**4,812**	4,068
Equity					
Called up share capital	26	**18,258**	15,854	**18,258**	15,854
Share premium account		**—**	6,142	**—**	6,142
Profit and loss account		**(9,638)**	(15,944)	**(10,814)**	(15,967)
Total equity		**8,620**	6,052	**7,444**	6,029
Total liabilities and equity		**64,588**	56,944	**12,256**	10,097

The Financial Statements were approved by the Board of Directors on 29 March 2011 and signed on their behalf by:

Jim Mellon
Executive Chairman

Denham Eke
Chief Executive Officer

Douglas Grant
Group Finance Director

The notes on pages 17 to 49 form part of these Financial Statements.

For the year ended 31 December	Notes	**2010 £000**	2009 £000
RECONCILIATION OF LOSS BEFORE TAXATION TO OPERATING CASH FLOWS			
Loss before tax on continuing activities		**(188)**	(2,621)
Unrealised loss/(gain) on financial assets carried at fair value		**200**	(238)
Loss on disposal of property, plant and equipment		**3**	2
Depreciation charge	11,19	**163**	102
Realised gains on available-for-sale investments		**(26)**	—
Shares issued in lieu of bonuses	26	**26**	—
Available-for-sale gains taken to equity		**—**	6
Actuarial gain/(loss) on defined benefit pension scheme taken to equity	25	**5**	(111)
Decrease in pension liability	25	**(6)**	(248)
Share-based payment (credit)/expense	26	**(178)**	22
Decrease in trade debtors		**69**	939
Decrease in trade creditors		**(589)**	(1,812)
Decrease in commission debtors		**55**	—
Net cash outflow from trading activities		**(466)**	(3,959)
(Increase)/decrease in loans and advances to customers		**(13)**	18,362
Increase/(decrease) in deposit accounts		**3,202**	(16,514)
Cash inflow/(outflow) from operating activities		**2,723**	(2,111)
CASH FLOW STATEMENT			
Cash flows from operating activities			
Cash inflow/(outflow) from operating activities		**2,723**	(2,111)
Taxation paid		**—**	—
Net cash inflow/(outflow) from operating activities		**2,723**	(2,111)
Cash flows from investing activities			
Purchase of tangible fixed assets	19	**(179)**	(526)
Sale/(purchase) of available-for-sale financial instruments	17	**2,723**	(9,989)
Sale of tangible fixed assets		**12**	13
Acquisition of subsidiaries net of cash acquired	20	**(11,573)**	—
Net cash outflow from investing activities		**(9,017)**	(10,502)
Cash flows from financing activities			
Issue of convertible loans	24	**1,710**	—
Issue of ordinary share capital	26	**1,903**	—
Repayment of subordinated loan	29	**(500)**	—
Net cash inflow from financing activities		**3,113**	—
Decrease in cash and cash equivalents		**(3,181)**	(12,613)

The notes on pages 17 to 49 form part of these Financial Statements.

For the year ended 31 December **Group**	**Share capital £000**	**Share premium £000**	**Retained earnings £000**	**2010 £000**	2009 £000
Balance as at 1 January	15,854	6,142	(15,944)	**6,052**	8,756
Loss for the year	—	—	(188)	**(188)**	(2,621)
Other comprehensive income/(expense)	—	—	5	**5**	(105)
Transactions with owners:					
Arising on shares issued in the year	2,404	—	—	**2,404**	—
Share-based payment expense	—	—	347	**347**	22
Transfer to retained reserves	—	(6,142)	6,142	**—**	—
Balance as at 31 December	18,258	—	(9,638)	**8,620**	6,052

For the year ended 31 December **Company**	**Share capital £000**	**Share premium £000**	**Retained earnings £000**	**2010 £000**	2009 £000
Balance as at 1 January	15,854	6,142	(15,967)	**6,029**	9,023
Loss for the year	—	—	(1,336)	**(1,336)**	(3,016)
Transactions with owners:					
Arising on shares issued in the year	2,404	—	—	**2,404**	—
Share-based payment expense	—	—	347	**347**	22
Transfer to retained reserves	—	(6,142)	6,142	**—**	—
Balance as at 31 December	18,258	—	(10,814)	**7,444**	6,029

The notes on pages 17 to 49 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 2010 comprise the Company and its subsidiaries (together referred to as the "Group").

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

2. Basis of preparation

(a) Statement of compliance

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

The Group has continued to apply the accounting policies used for the 2009 annual report and has adopted the following Standards from 1 January 2010 (prior periods are not affected by these revised standards):

- IFRS3: Business Combinations. For the Group, the main change is that any costs directly related to the acquisition of a subsidiary are expensed as incurred, and are not part of the cost of the business combination.

- IFRS27: Consolidated and Separate Financial Statements. Changes in ownership interests in subsidiaries are now accounted for as equity transactions if they occur after control has already been obtained and they do not result in loss of control. In addition, when the Group ceases to have control in a subsidiary, any retained interest in the subsidiary is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. A number of other amendments and interpretations to IFRS have been issued that first apply from 1 January 2010. These have not resulted in any material changes to the Group's accounting policies.

(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(p).

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.

3. Significant accounting policies (continued)

(b) Accounting for business combinations

From 1 January 2010 the Group has applied *IFRS3 Business Combinations (2008)* in accounting for business combinations.

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

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

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

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

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

(c) Property, plant and equipment

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

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

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

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.

Leasehold improvements	7 years
Equipment	4–5 years
Vehicles	4 years
Furniture	10% per annum

(d) Financial assets

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

Loans and receivables

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

3. Significant accounting policies (continued)

(d) Financial assets (continued)

Financial assets at fair value through profit or loss

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

Available-for-sale financial instruments

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. 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 in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are recognised in the comprehensive statement of income.

Investments in subsidiary undertakings

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

(e) Impairment of financial assets

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

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

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

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

(f) Cash and cash equivalents

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

(g) Financial liabilities

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

(h) 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.

3. Significant accounting policies (continued)

(h) Employee benefits (continued)

***Pension obligations* (continued)**

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 statement of comprehensive income. A charge equal to the expected increase in the present value of the plan liabilities, as a result of the plan liabilities being one year closer to settlement, and a credit reflecting the long-term expected return on assets based on the market value of the scheme assets at the beginning of the period, is included in the statement of comprehensive income.

The statement of financial position records as an asset or liability (as appropriate), the difference between the market value of the plan assets and the present value of the accrued plan liabilities. The difference between the expected return on assets and that actually achieved in the period, is recognised in the statement of comprehensive income in the year in which 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 statement of comprehensive 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.

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 statement of comprehensive 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.

(i) 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.

3. Significant accounting policies (continued)

(i) Leases (continued)

ii) *A Group Company is the lessee*

Operating leases

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

(j) 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 reporting date 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.

(k) Interest income and expense

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

Effective interest rate

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

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

(l) 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.

(m) Programme costs

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

(n) Segmental reporting

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

3. Significant accounting policies (continued)

(o) New standards and interpretations not yet adopted

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

IFRS9: Financial Instruments contains new requirements for accounting for financial assets and liabilities which, by 30 June 2011, will include new requirements for impairment and hedge accounting, replacing the corresponding requirements in IAS39: Financial Instruments: Recognition and Measurement. It will introduce significant changes in the way that the Group accounts for financial instruments. The key changes issued and proposed relate to:

- Financial assets. Financial assets will be held at either fair value or amortised cost, except for equity investments not held for trading, which may be held at fair value through equity.
- Financial liabilities. Gains and losses on own credit arising from financial liabilities designated at fair value through profit or loss will be excluded from the income statement and instead taken to other comprehensive income.
- Impairment. Both expected losses and incurred losses will be reflected in impairment allowances for loans and advances.

Adoption is not mandatory until periods beginning on or after 1 January 2013. Earlier adoption is possible. At this stage, it is not possible to determine the potential financial impacts of adoption on the Group.

With respect to other future developments the international accounting standards board (IASB) is undertaking a comprehensive review of existing IFRSs which, in June 2010, it prioritised into those IFRSs that it expects to issue by 30 June 2011. In addition to IFRS9, the 30 June 2011 standards which are expected to be more significant for the Group are as follows:

- Leases. Under the proposals, lessees are required to recognise assets and liabilities arising from both operating and finance leases on the balance sheet.
- Post-employment benefits. The amendments to IAS19: Employee Benefits require net pension liabilities arising from defined benefit pension schemes to be recognised in full.

In addition to the above, the IASB plans to issue new standards on insurance contracts, offsetting, consolidation, fair value measurement, the presentation of other comprehensive income and revenue recognition. The Group will consider the financial impacts of these new standards as they are finalised.

(p) Key sources of estimation uncertainty

Management believe that a key area of estimation and uncertainty is in respect of the impairment allowances on loans and advances to customers. 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 surrounding it. 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.

(q) Fiduciary deposits

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

(r) Prepaid card funds

The Group 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 in the statement of financial position.

(s) Foreign exchange

Foreign currency assets and liabilities (applicable to the Conister Card Services division only) are translated at the rates of exchange ruling at the reporting date. Transactions during the year are recorded at rates of exchange in effect when the transaction occurs. The exchange movements are dealt with in the statement of comprehensive 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 Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions. The Group has a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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

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, secured commercial loans, block discounting and stocking plan loans. It is also exposed to credit risk with regard to cash balances and trade and other receivables.

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

Loans and advances to customers	2010 £000	2009 £000
Carrying amount	**48,678**	37,554
Individually impaired[1]		
Grade A	**193**	1,361
Grade B	**74**	468
Grade C	**6,267**	4,004
Gross value	**6,534**	5,833
Allowance for impairment	**(4,174)**	(4,103)
Carrying value	**2,360**	1,730
Collective allowance for impairment	**(490)**	(333)
Past due but not impaired		
Less than 1 month	**1,333**	750
1 month but less than 2 months	**823**	84
2 months but less than 3 months	**29**	18
3 months and over	**25**	21
Carrying value	**2,210**	873
Neither past due nor impaired	**44,598**	35,284

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)
i) Credit risk (continued)
Management of 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, secured commercial loans, block discounting 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 2010 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	**3,319**	**2,381**	**1,697**	**2,021**	**21,971**	**19,810**	**4,921**	**—**	**56,120**
Other liabilities	**978**	**—**	**1,710**	**158**	**—**	**317**	**—**	**60**	**3,223**
Total liabilities	**4,297**	**2,381**	**3,407**	**2,179**	**21,971**	**20,127**	**4,921**	**60**	**59,343**

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

4. Risk and capital management (continued)
(a) Risk management (continued)
ii) Liquidity risk (continued)

Measurement of liquidity risk (continued)
Maturity of assets and liabilities at the balance sheet date

31 December 2010 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	4,795	—	—	—	—	—	—	—	4,795
Available-for-sale financial instruments	—	7,292	—	—	—	—	—	—	7,292
Customer accounts receivable	1,803	1,644	4,298	5,846	9,576	22,239	3,264	8	48,678
Commission debtors	237	—	—	—	—	—	—	—	237
Other assets	76	—	—	—	348	—	—	3,162	3,586
Total assets	6,911	8,936	4,298	5,846	9,924	22,239	3,264	3,170	64,588
Liabilities									
Customer accounts	4,205	1,470	1,673	1,975	21,040	18,360	4,022	—	52,745
Other liabilities	978	—	1,710	158	—	317	—	60	3,223
Total liabilities	5,183	1,470	3,383	2,133	21,040	18,677	4,022	60	55,968

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

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

iii) Operational risk
Operational risk arises from the potential for inadequate systems (including systems breakdown), errors, poor management, breaches in internal controls, fraud and external events to result in financial loss or reputational damage. Operational risk also arises through the use of an outsourcing partner, 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 profit and loss. There is no exposure at the year-end as all available-for-sale financial instruments have either been disposed of or fully impaired (Equity Special Situations Limited) except for the UK Government treasury bills. The exposure remaining relates to the financial asset carried at fair value through profit and loss in the Company, which is an equity investment stated at a market value. Given the size of this holding, £174,000 at 31 December 2010 (2009: £374,000) 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 2010	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	4,795	—	—	—	—	—	—	4,795
Available-for-sale financial instruments	7,292	—	—	—	—	—	—	7,292
Customer accounts receivable	3,447	4,298	5,846	9,576	22,239	3,264	8	48,678
Commission debtors	—	237	—	—	—	—	—	237
Other assets	76	—	—	348	—	—	3,162	3,586
Total assets	15,610	4,535	5,846	9,924	22,239	3,264	3,170	64,588
Liabilities								
Customer accounts	5,674	1,673	1,975	21,040	18,360	4,023	—	52,745
Other liabilities	978	1,710	158	—	317	—	60	3,223
Total capital and reserves	8,620	—	—	—	—	—	—	8,620
Total liabilities and equity	15,272	3,383	2,133	21,040	18,677	4,023	60	64,588
Interest rate sensitivity gap	338	1,152	3,713	(11,116)	3,562	(759)	3,110	—
Cumulative	338	1,490	5,203	(5,913)	(2,351)	(3,110)	—	—

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

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
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	—	—

* 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 (2009: 2%). The following tables set out the estimated total impact of such a change based on the mismatch at the balance sheet date.

31 December 2010	**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	**338**	**1,152**	**3,713**	**(11,116)**	**3,562**	**(759)**	**3,110**	**—**
Weighting	**0.000**	**0.003**	**0.007**	**0.014**	**0.027**	**0.054**	**0.115**	**—**
Cumulative £000	**—**	**3**	**26**	**(156)**	**96**	**(41)**	**358**	**286**

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	—	32	—	(15)	(343)	44	(122)	(404)

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 17% (2009: 18%). This was above the minimum prescribed by the FSC.

5. Segmental analysis

Segmental information is presented in respect of the Group's business segments. The Directors consider that the Group currently operates in one geographic segment, 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 four product orientated segments in addition to its investing activities: Asset and Personal Finance (including provision of HP contracts, finance leases, personal loans, commercial loans, block discounting and premium finance); Litigation Finance; a Prepaid Card division, Conister Card Services; and a Wealth Management division, Edgewater Associates Limited. The Group ceased to provide new Litigation Finance in June 2007.

Included within personnel expenses in the Consolidated Income Statement is £265,316 (2009: £362,064) relating to direct salary costs for Conister Card Services.

For the year ended 31 December	Asset and Personal Finance £000	Litigation Finance £000	Conister Card Services £000	Wealth Management £000	Investing Activities £000	Total 2010 £000
Net interest income	2,999	238	—	—	—	**3,237**
Operating income	2,339	238	579	621	—	**3,777**
Provision for impairment	361	666	—	—	—	**1,027**
Profit/(loss) before unallocated items	209	861	107	274	(200)	**1,251**
Group central costs	—	—	—	—	—	**(1,165)**
Profit before specific items						**86**
Capital expenditure	335	—	—	1	—	**336**
Total assets	61,042	1,011	116	2,245	174	**64,588**
Total liabilities and equity	62,953	1,011	59	565	—	**64,588**

5. Segmental analysis (continued)

For the year ended 31 December	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

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

6. Interest income

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

7. Interest expense

	2010 £000	2009 £000
Payable to depositors	**1,730**	3,162
Payable on subordinated loan (note 30)	**10**	60
Payable on convertible loans	**126**	—
	1,866	3,222

8. Allowance for impairment

The (credit)/charge in respect of specific allowances for impairment comprises:

	2010 £000	2009 £000
Specific impairment allowances made	**194**	1,163
Reversal of allowances previously made	**(1,250)**	(82)
Recovery of amounts previously made	**—**	—
Recovery of amounts previously written off	**—**	(3)
Total (credit)/charge for specific provision for impairment	**(1,056)**	1,078

The charge/(credit) in respect of collective allowances for impairment comprises:

	2010 £000	2009 £000
Collective impairment allowances made	**53**	35
Release of allowances previously made	**(24)**	(470)
Total charge/(credit) for collective allowances for impairment	**29**	(435)
Total (credit)/charge for allowances for impairment	**(1,027)**	643

9. Acquisition and associated restructuring costs

Acquisition and restructuring costs in the current year relate to the purchase of Edgewater Associates Limited and ECF Asset Finance PLC and the subsequent restructuring of the UK operations.

	2010 £000	2009 £000
Acquisition costs		
Legal and professional fees	**181**	—
Reorganisation of UK operations in relation to acquisitions		
Redundancy costs	**93**	—
Reorganisation of Isle of Man operations process		
Redundancy costs	**—**	57
Closure of UK Conister Card Services operation		
Redundancy costs	**—**	101
	274	158

10. Depositors' Compensation Scheme

	2010 £000	2009 £000
(Over provision)/provision in respect of Kaupthing Singer & Friedlander (Isle of Man) Limited	**(2)**	150
Recovery in respect of Bank of Credit & Commerce International SA	**—**	(61)
	(2)	89

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 prior year and an additional amount of £73,880 was paid in the current year. The £2,000 credit reflects the reversal of the over provision from 2009.

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.

11. Loss before taxation

The loss before taxation for the year is stated after charging/(crediting):

		2010 £000	2009 £000
Depreciation		**163**	102
Loss on sale of fixed assets		**3**	2
Share option expense		**(178)**	22
Directors' remuneration and fees		**353**	433
Directors' pensions		**21**	33
Directors' bonuses		**33**	12
Auditors' remuneration	as Auditors current year	**72**	75
	as Auditors under-accrual for prior year	**—**	11
	non-audit services	**138**	108
Pension cost defined contribution scheme		**68**	122
Operating lease rentals for property		**141**	92

12. Income tax expense

The main rate of income tax in the Isle of Man is 0% (2009: 0%), however the profits of the Group's Manx banking activities are taxed at 10% (2009: 10%). The profits of the Group's subsidiaries that are subject to UK corporation tax are taxed at a rate of 28% (2009: 28%).

The Group had sufficient tax losses brought forward to offset any profits in income streams that are taxable at a rate above 0% and therefore no provision is required.

The Group had unrecognised deferred assets of £0.5 million (2009: £0.6 million) in respect of tax losses carried forward, net of accelerated capital allowances.

13. Loss per share

	2010 £000	2009 £000
Loss for the year	**(188)**	(2,621)
	Number	Number
Weighted average number of ordinary shares in issue	**76,143,178**	63,416,450
Basic and diluted loss per share	**(0.24)p**	(4.13)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.

Diluted earnings per share is the same as basic loss per share, as for the year ended 31 December 2010 there is no dilution from potential ordinary shares.

14. Company loss

The loss on ordinary activities after taxation of the Company is £1,336,000 (2009: £3,016,000).

15. Cash and cash equivalents

	Group		Company	
	2010 £000	2009 £000	**2010 £000**	2009 £000
Cash at bank and in hand	**2,656**	3,908	**—**	—
Short-term deposits	**2,139**	4,068	**—**	—
	4,795	7,976	**—**	—

15. Cash and cash equivalents (continued)

Cash at bank includes an amount of £29,040 (2009: £107,296) representing cheques issued in the course of transmission. The remaining maturity of short-term deposits is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Less than 8 days	**2,139**	4,068	**–**	–
	2,139	4,068	**–**	–

16. 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 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. In the year this investment was transferred to the Company from the Bank.

17. Available-for-sale financial instruments

	Group		Company	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
UK Government Treasury Bills	**7,292**	9,989	**–**	–
	7,292	9,989	**–**	–

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

18. Loans and advances to customers

Group	2010 Gross Amount £000	2010 Impairment Allowance £000	2010 Carrying Value £000	2009 Gross Amount £000	2009 Impairment Allowance £000	2009 Carrying Value £000
Hire purchase balances	**30,420**	**(1,062)**	**29,358**	24,058	(1,063)	22,995
Finance lease balances	**11,306**	**(1,209)**	**10,097**	1,407	(285)	1,122
Premium financing	**—**	**—**	**—**	7,198	—	7,198
Litigation funding	**2,634**	**(1,623)**	**1,011**	2,443	(2,289)	154
Unsecured personal loans	**3,602**	**(522)**	**3,080**	5,961	(719)	5,242
Vehicle stocking plans	**1,341**	**—**	**1,341**	923	(80)	843
Block discounting	**989**	**—**	**989**	—	—	—
Secured commercial loans	**3,049**	**(247)**	**2,802**	—	—	—
	53,341	**(4,663)**	**48,678**	41,990	(4,436)	37,554

Specific allowance for impairment	2010 £000	2009 £000
Balance at 1 January	**4,103**	3,397
Provisions as a result of acquisition of business	**1,510**	—
Specific allowance for impairment made	**(1,125)**	1,025
Write-offs	**(315)**	(319)
Balance at 31 December	**4,173**	4,103

Collective allowance for impairment	2010 £000	2009 £000
Balance at 1 January	**333**	768
Provisions as a result of acquisition of business	**129**	—
Collective allowance for impairment made	**52**	35
Release of allowances previously made	**(24)**	(470)
Balance at 31 December	**490**	333
Total allowances for impairment	**4,663**	4,436

Advances on preferential terms are available to all Directors, management and staff. As at 31 December 2010, £144,539 (2009: £161,283) was lent on this basis. In the Group's ordinary course of business, advances may be made to Shareholders but all such advances are made on normal commercial terms.

At the end of the current financial year one loan exposure exceeded 10% of the total capital base of the Group (2009: no loans exceeded 10% of the total capital base).

18. Loans and advances to customers (continued)

HP and Finance Lease Receivables

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

Gross investment in HP and finance lease receivables	2010 £000	2009 £000
Less than one year	**20,131**	16,041
Between one and five years	**28,000**	13,858
	48,131	29,899
Unearned future income on HP and finance leases	**(6,405)**	(4,434)
Investment in HP and finance lease receivables net of unearned income	**41,726**	25,465

The investment in HP and finance lease receivables net of unearned income comprises:	2010 £000	2009 £000
Less than one year	**16,951**	13,662
Between one and five years	**24,775**	11,803
Net investment in HP and finance lease receivables	**41,726**	25,465

19. Property, plant and equipment

Group	Leasehold improvements £000	IT equipment £000	Furniture & equipment £000	Motor vehicles £000	Total £000
Cost					
As at 1 January 2010	29	669	172	84	954
Additions	2	106	1	70	179
Acquired on acquisition	—	—	420	34	454
Disposals	—	(12)	—	(21)	(33)
As at 31 December 2010	31	763	593	167	1,554
Accumulated depreciation					
As at 1 January 2010	(7)	(167)	(117)	(62)	(353)
Acquired on acquisition	—	—	(283)	(13)	(296)
Charge for year	(4)	(125)	(15)	(19)	(163)
Disposals	—	6	—	12	18
As at 31 December 2010	(11)	(286)	(415)	(82)	(794)
Carrying value at 31 December 2010	20	477	178	85	760
Carrying value at 31 December 2009	22	502	55	22	601

19. Property, plant and equipment (continued)

Fixed assets with a net book value of £542,000 (2009: £571,000) are held by Conister Bank Limited. These comprise furniture and equipment of £46,000 (2009: £53,000), leasehold improvements of £20,000 (2009: £22,000) and IT equipment of £477,000 (2009: £496,000).

Fixed assets with a net book value of £69,000 (2009: £25,000) are held by Conister Finance and Leasing Ltd, all of which relate to motor vehicles.

Fixed assets with a net book value of £86,000 (2009: £nil) are held by Edgewater Associates Limited, all of which relate to furniture and equipment. These assets were acquired during the year as part of the acquisition of Edgewater Associates Limited by Manx Financial Group PLC, the net book value of the assets on acquisition was £89,000.

Fixed assets with a net book value of £63,000 (2009: £nil) are held by ECF Asset Finance PLC, of which £46,000 relate to furniture and equipment and £17,000 relate to motor vehicles. These assets were acquired during the year as part of the acquisition of ECF Asset Finance PLC by Manx Financial Group PLC, the net book value of the assets on acquisition was £51,000 and £18,000 respectively.

20. Investment in Group undertakings

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

Carrying value of investments	Nature of business	31 December 2010 % Holding	Date of incorporation	**Total 2010 £**	Total 2009 £
Conister Bank Limited	Asset and personal finance	100	5.12.1935	**10,067,000**	10,067,000
TransSend Holdings Limited	Holding Co for prepaid card division	100	5.11.2007	**—**	—
Bradburn Limited	Holding Company	100	15.05.2009	**1**	—
Edgewater Associates Limited	Wealth Management	100	24.12.1996	**2,000,000**	—
				12,067,001	10,067,000

Acquisition of subsidiaries

Acquisition of Edgewater Associates Limited

On 30 July 2010 the Group acquired the entire share capital of Edgewater Associates Limited (“Edgewater”). Edgewater is regulated by both the Financial Services Commission and the Insurance and Pensions Authority.

In the five months to 31 December 2010 Edgewater contributed revenue of £552,000, and profit of £205,000 to the Group’s results.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Consideration transferred

	£’000
Cash	525
Equity instruments issued	475
Deferred cash consideration	475
Deferred equity consideration	525
Total consideration	2,000

20. Investment in Group undertakings (continued)

Equity instruments issued

The ordinary shares were issued at a price of 14p per share.

Deferred consideration

The deferred element of the consideration is payable over the next three years on approval of the respective company accounts for each of the financial years ending 31 December 2010, 2011 and 2012. The deferred element, payable on the approval of the respective accounts, is:

- 31 December 2010: £158,000 in cash and £175,000 payable in Consideration Shares;
- 31 December 2011: £158,000 in cash and £175,000 payable in Consideration Shares;
- 31 December 2012: £159,000 in cash and £175,000 payable in Consideration Shares; and
- Total deferred cash and share consideration payable is £475,000 and £525,000 respectively.

The Consideration Shares shall be issued on the basis of the mean average offer price of the Group's ordinary shares for the five business days immediately preceding the date on which the obligation arises. The cash consideration will be financed from existing cash resources.

Incentive commission

It has also been agreed that an incentive commission will be paid to Edgewater's principals, calculated as 40% of the EBITDA in excess of £400,000, £450,000 and £500,000 thresholds in each of the financial years ending 31 December 2010, 2011 and 2012 on a cumulative basis so as to make good any prior year or years' shortfall before triggering any additional consideration. The incentive commission will be payable 50% in cash and 50% in the Group's shares. Such additional shares will be issued at the same price as the Consideration Shares for that year.

Based on current expectations no provision has been made in the accounts of the Group in respect of the incentive commission.

Identifiable assets acquired and liabilities assumed

	£000
Property, plant and equipment	90
Commission debtors	292
Cash	63
Inventories	3
Trade and other payables	(214)
HP obligations†	(83)
Total identifiable net assets	151

† HP obligations relates to amounts outstanding under a HP agreement with a fellow subsidiary.

Goodwill

	£000
Total consideration transferred	2,000
Fair value of identifiable net assets	(151)
Goodwill	1,849

The goodwill is attributable to Edgewater's established personal and commercial client base of over 5,000 accounts, the skills and technical talent of its workforce and the synergies expected to be achieved from Edgewater taking over responsibility for Conister Wealth.

20. Investment in Group undertakings (continued)

Goodwill impairment

The goodwill is considered to have an indefinite life and will be reviewed annually by comparing its estimated recoverable amount with its carrying value. Estimated recoverable amount will be based on the revised forecast profits and cash flows of Edgewater. As at 31 December 2010, the Directors have reviewed the carrying value of goodwill and consider that no impairment is required.

Acquisition-related costs

The Group incurred acquisition-related costs of £70,995 in relation to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in acquisition and associated restructuring costs in the Group's consolidated statement of comprehensive income.

Acquisition of ECF Asset Finance PLC

On 20 November 2010 Bradburn Limited acquired the entire share capital of ECF Asset Finance PLC, an asset finance house formed over 19 years ago to provide asset backed finance to UK based Small and Medium sized Entities ("SMEs"), for £12,177,000.

As part of this acquisition the loan book and all related assets and liabilities were transferred to Conister Bank Limited.

In the period from 20 November to 31 December 2010 ECF Asset Finance PLC contributed revenue of £nil, and a loss of £108,074 to the Group's results.

The following summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Identifiable assets acquired and liabilities assumed	£'000
Property plant and equipment	69
Cash	1,066
Loans and advances to customers	11,194
Trade and other receivables	65
Trade and other payables	(571)
Total identifiable net assets	11,823

Goodwill	£'000
Total consideration transferred	12,177
Fair value of identifiable net assets	(11,823)
Goodwill	354

Acquisition-related costs

The Group incurred acquisition-related costs of £110,000 in relation to external legal fees and due diligence costs and associated redundancy costs of £93,872. The legal fees, due diligence costs and redundancy costs have been included in acquisition and associated restructuring costs in the Group's consolidated statement of comprehensive income.

21. Trade and other receivables

	Group		Company	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Trade debtors	**207**	34	**—**	—
Prepayments and other debtors	**242**	378	**9**	18
VAT Recoverable	**—**	38	**6**	6
	449	450	**15**	24

22. Customer accounts

	2010	2009
	£000	£000
Retail customers: Term deposits	**50,878**	47,994
Corporate customers: Term deposits	**1,867**	1,550
	52,745	49,544

Fiduciary deposits

The Bank acts as agent bank to a number of customers, for balances totalling £48,396,641 (2009: £8,411,145). The Bank invests these customer assets with third party banks on their behalf and in return for this service receives a fee. These balances are not included within the statement of financial position.

23. Creditors and accrued charges

	Group		Company	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Creditors and accruals	**672**	780	**209**	192
Redundancy costs	**102**	—	**—**	—
VAT payable	**135**	—	**—**	—
Subordinated loan (note 29)	**—**	500	**—**	—
Short-term employee benefits	**69**	2	**—**	—
	978	1,282	**209**	192

24. Convertible loan notes

On 3 March 2010 MFG entered into a convertible loan agreement with Jim 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 Arron Banks) for £0.46 million on 26 March 2010. These loans represent Related Party Transactions 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 insofar as the shareholders of the Company are concerned.

25. 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 2010 showed that the market value of the Scheme's assets was £1,346,464, representing 97.7% 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 2010.

The actuarial assumptions used to calculate scheme liabilities under IAS19 are as follows:	**2010 %**	2009 %	2008 %	2007 %	2006 %
Rate of increase in salaries	**3.70**	3.80	2.80	3.40	3.10
Rate of increase in pension in payment:					
— service up to 5 April 1997	**—**	—	—	—	—
— service from 6 April 1997 to 13 September 2005	**3.40**	3.50	2.70	3.40	3.10
— service from 14 September 2005	**2.20**	2.30	2.00	2.40	2.30
Discount rate applied to scheme liabilities	**5.70**	5.70	6.70	5.80	5.10
Return on assets	**5.20**	5.95	6.60	7.90	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.

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

Total underfunding in funded plans recognised as a liability	**2010 £000**	2009 £000
Fair value of plan assets	**1,357**	1,325
Present value of funded obligations	**(1,417)**	(1,391)
	(60)	(66)

Plan assets consist of the following:	**2010 %**	2009 %
Equity securities	**24**	35
Corporate bonds	**25**	24
Government bonds	**37**	34
Cash	**7**	5
Other	**7**	2
	100	100

25. Pension liability (continued)

Movement in the liability for defined benefit obligations:	2010 £000	2009 £000
Opening defined benefit obligations at 1 January	**1,391**	1,141
Benefits paid by the plan	**(55)**	(55)
Interest on obligations	**78**	75
Actuarial loss	**3**	230
Liability for defined benefit obligations at 31 December	**1,417**	1,391

Movement in plan assets:	2010 £000	2009 £000
Opening fair value of plan assets at 1 January	**1,325**	827
Expected return on assets	**79**	59
Contribution by employer	**—**	375
Actuarial gain	**8**	119
Benefits paid	**(55)**	(55)
Closing fair value of plan assets at 31 December	**1,357**	1,325

Expense recognised in income statement:	2010 £000	2009 £000
Interest on obligation	**78**	75
Expected return on plan assets	**(79)**	(59)
Total included in personnel costs	**(1)**	16
Actual return on plan assets	**(19)**	(178)

Income recognised in other comprehensive income and expense:	2010 £000	2009 £000
Actuarial gain on plan assets	**8**	119
Actuarial loss on defined benefit obligations	**(3)**	(230)
	5	(111)

26. Called up share capital and share premium

Following the approval by its Shareholders at the Company's Extraordinary General Meeting held on 14 January 2010, it has now re-registered as a company incorporated under the Isle of Man Companies Act 2006 (as amended).

As a result, the Company's authorised share capital consists of 150,000,000 ordinary shares of no par value and the share premium account was transferred to reserves.

During the year the Company extended an open general offer to all Shareholders on the basis of 1 New Ordinary Share for every 3 Existing Ordinary Shares held. Under the general offer the Company issued 21,138,277 new ordinary shares of no par value and raised £1.9 million of capital.

In addition to the general offer, the Company issued a total of 239,269 shares with a value of £26,200 to two Executive Directors in lieu of cash bonuses.

Additional shares were also issued as part consideration in the acquisition of Edgewater Associates Limited (see note 20).

Authorised: Ordinary shares of no par value	Number
At 31 December 2010	**150,000,000**
At 31 December 2009	150,000,000

Issued and fully paid: Ordinary shares of no par value	Number	£000
At 31 December 2009	63,416,450	15,854
Issued as a result of open general offer to all Shareholders	21,138,277	1,903
Issued in lieu of bonus to Executive Directors	239,269	26
Issued as part consideration for shares in Edgewater Associates Limited	3,392,857	475
As at 31 December 2010	**88,186,853**	**18,258**

26. Called up share capital and share premium (continued)

Dates Exercisable	Executive Plan Options				
Grant date	Performance Conditions	From	To	Exercise Price	Number of ordinary shares
On 9 June 2003	Fully vested	9 June 2009	9 Dec 2013	34p	**2,092,500**
Balance at 31 December 2009					36,500
Lapsed					(8,000)
Balance at 31 December 2010					**28,500**
On 28 April 2004	Fully vested	28 Apr 2004	27 Apr 2014	29p	**350,000**
Balance at 31 December 2009					91,000
Lapsed					(22,500)
Balance at 31 December 2010					**68,500**
On 25 April 2005	Fully vested	25 Apr 2005	24 Apr 2015	32p	**205,500**
Balance at 31 December 2009					32,500
Lapsed					(7,500)
Balance at 31 December 2010					**25,000**
On 1 November 2006		1 Nov 2006	31 Oct 2011	54.1p	**1,375,000**
Balance at 31 December 2009					125,000
Lapsed					(125,000)
Balance at 31 December 2010					**–**
On 6 July 2007	(a)	6 July 2007	6 July 2017	65p	**625,000**
Balance at 31 December 2009					150,000
Lapsed					(100,000)
Balance at 31 December 2010					**50,000**
On 1 February 2008	(b)	1 Feb 2008	1 Feb 2018	70p	**1,275,000**
Balance at 31 December 2009					200,000
Lapsed					(100,000)
Balance at 31 December 2010					**100,000**
On 25 June 2010					
Balance at 31 December 2009					–
Granted	(c)	25 June 2010	25 June 2020	10.95p	1,410,447
Balance at 31 December 2010					**1,410,447**

26. Called up share capital and share premium (continued)

Performance conditions attached to share options that have not fully vested

(a) The options granted on 6 July 2007 vested 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 (e.g. 6 July 2010).

(b) 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.

(c) The options granted on 25 June 2010 will vest if the mid market share price of £0.30 is achieved during the period of grant (10 years ending 25 June 2020).

No shares resulting from the exercise of an option may be sold for at least three years from the date of grant.

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

26. Called up share capital and share premium (continued)

	6 July 2007 (Tranche 2)	9 July 2007 (Tranche 3)	1 February 2008	25 June 2010
Fair value at date of grant	0.27	0.31	0.31	0.03
Share price	0.64	0.67	0.77	0.11
Exercise price	0.65	0.65	0.81	0.11
Expected volatility	36%	36%	35%	47%
Option life	10	10	10	10
Expected dividends	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate (based on government bonds)	5.71%	5.71%	4.28%	2.24%
Forfeiture rate	0%	0%	0%	0%

Expense in statement of comprehensive income	2010 £000	2009 £000
Share options granted in:		
2003	**—**	—
2004	**—**	—
2005	**—**	—
2006	**—**	1
2007	**1**	16
2008	**—**	5
2010	**5**	—
	6	22

Options from all the above grant years excluding 2010 lapsed during the year as a result of staff leaving the Company; a credit of £184,000 was recognised in the statement of comprehensive income in the year.

27. Analysis of changes in financing during the year

Analysis of changes in financing during the year	2010 £000	2009 £000
Balance at 1 January	**22,496**	22,496
Issue of ordinary shares by way of general offer	**1,903**	—
Issue of ordinary shares in lieu of bonus to Executive Directors (see note 26)	**26**	—
Issue of ordinary shares as part consideration for purchase of subsidiary undertaking	**475**	—
Transfer of share premium account to reserves	**(6,142)**	—
Repayment of subordinated liabilities	**(500)**	—
Issue of convertible loans	**1,710**	—
Balance at 31 December	**19,968**	22,496

The 2010 closing balance is represented by £18,258,000 share capital and £1,710,000 of convertible loan agreements.

The 2009 closing balance was represented by £15,881,000 share capital, £6,142,000 share premium and £500,000 subordinated liabilities.

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

29. 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 carried interest at 7.3% per annum and was repayable over 36 months. As at 31 December 2010 the balance on the loan was £nil (31 December 2009: £139,084). NewLaw is a related party to Arron Banks*.

Premium finance
Conister Bank Limited had 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 were issued by Southern Rock Insurance Company Limited. In 2010 the Group provided financing of £16,446 (31 December 2009: £19 million), earning interest income of £91,140 (31 December 2009: £1,024,000). Twelve months' notice to terminate this agreement was given in August 2009 and no balance remained at 31 December 2010. Group Direct Limited and Southern Rock Insurance Company Limited are related parties of Arron Banks*.

*Arron Banks is a Non-Executive Director and significant shareholder of MFG.

Cash deposits
During the year the Bank held cash on deposit on behalf of the following directors:

Jim Mellon and a company related to him
A company related to Denham Eke
Douglas Grant

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 Jim 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.

Staff loans
Details of staff loans are given in note 18 to the financial statements.

Convertible loans
Details of convertible loan arrangements are given in note 24 to the financial statements.

29. Related party transactions (continued)

Key management personnel (including Executive Directors') compensation

	2010 £000	2009 £000
Short-term employee benefits	**395**	729
Share-based payments	**26**	9
Total	**421**	738

30. Operating leases

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

	2010		2009	
	Leasehold property £000	**Other £000**	Leasehold property £000	Other £000
Less than one year	**245**	**15**	86	—
Between one and five years	**658**	**18**	301	—
	903	**33**	387	—

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.

31. Litigation

The Bank is vigorously pursuing the repayment of litigation funding loans made to clients of 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.

MANX FINANCIAL
GROUP PLC

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

Tel: (01624) 694694
Fax: (01624) 624278

www.mfg.im