



MANX FINANCIAL  
GROUP PLC

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ANNUAL REPORT 2011

# Welcome to Manx Financial Group PLC

## Integrity through innovation and independence

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



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.

Principal wholly owned subsidiaries:

- 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, personal loans, loans to small and medium sized entities (SMEs), block discounting and other specialist secured credit facilities to both the Isle of Man and the UK consumer and business sectors.



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 in excess of 180,000 MasterCard® prepaid cards in issue and loading circa £795 million a year.

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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. It provides a bespoke and personal service to Isle of Man residents and to the Group's business and personal customers and manages assets in excess of £130 million.

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



ECF Asset Finance PLC was acquired to become the Group's UK hub for asset finance sales focusing on loans to SMEs.

## Financial Highlights

### *Manx Financial Group PLC:*

- ⊙ Net interest income £4.59 million (2010: £3.24 million)
- ⊙ Net trading income £5.04 million (2010: £3.19 million)
- ⊙ Operating income £5.45 million (2010: £3.80 million)
- ⊙ Loss before specific items £0.14 million (2010: profit £0.09 million)
- ⊙ Loss for the year £0.78 million (2010: £0.19 million)
- ⊙ Headcount 68 (2010: 82)

### *Conister Bank Limited:*

- ⊙ Profit for the year £0.02 million (2010: £1.04 million)
- ⊙ Net loans and advances £49.59 million (2010: £48.76 million)
- ⊙ Deferred income £7.60 million (2010: £7.14 million)
- ⊙ New advances £27.60 million (2010: £24.47 million)
- ⊙ Deposits £55.91 million (2010: £52.75 million)

### *Edgewater Associates Limited:*

- ⊙ Profit for the year £0.01 million (2010: £0.22 million)
- ⊙ Assets under management £130 million (2010: £110 million)
- ⊙ Renewal commission income £0.57 million (2010: £0.29 million)
- ⊙ Acquired a general insurer, Three Spires Insurance Services Limited

### *Conister Card Services Limited:*

- ⊙ Profit for the year £0.18 million (2010: £0.14 million)
- ⊙ Cards in issue 0.18 million (2010: 0.12 million)



**Jim Mellon**  
Chairman

### Review of performance

#### Manx Financial Group PLC

When I wrote to you at the Interim stage, I commented upon the pessimism surrounding the British economy. Seven months on, nothing has really changed and thus the economic situation within which we operate remains unpredictable and challenging. We have, however, adapted and have grown our asset base in the face of this tough environment. It is encouraging to note that our loan book arrears per cent has remained constant throughout the year and remains historically low and our bad debt write-offs only represent approximately 1% of net loans and advances. Whilst this prudent and conservative underwriting policy has ensured a tightly controlled risk profile, it has also meant that we have not been able to grow interest income to the level which we anticipated at the beginning of the year and this has had a consequent impact on this year's profitability.

We have maintained our liquidity throughout the current economic turmoil. Indeed our issue has been an ability to deploy that liquidity to fully maximise our returns by transacting business with borrowers that meet our underwriting requirements. As I discussed in last year's review, we recognised that the need to develop new business lines, either through partnership or acquisition, is paramount. We are, therefore, placing a high priority on diversifying our loan portfolio, and introducing new lending opportunities which will allow us to gain efficiencies through the greater use of IT.

We have been successful seeking out new business lines, both at Conister Bank by providing 'blocking' facilities to third-party lenders and at Edgewater Associates by enhancing our general insurance offering, and we anticipate that these and other initiatives will increase our income in the coming months. In addition, we have secured significant cost savings in both headcount and infrastructure as we have continued to develop a more efficient distribution network, especially serving the UK, and we expect most of the benefit of these savings to be reflected in the second half of the 2012 financial year. Our new business lines now represent over 26% of our gross receivable (2010: 11.7%) and the strategy of diversifying our lending portfolio through partnering with existing niche market leaders is continuing successfully.

Notwithstanding, our overall financial performance for the year was disappointing despite growing our consolidated net income to £4.59 million (2010: £3.24 million) which generated a consolidated operating income increase of 43% to £5.45 million (2010: £3.80 million). Our consolidated operating expenses increased significantly, however, following the previous year's acquisition of ECF Asset Finance PLC, but much of this expense has been addressed by subsequent cost-cutting. The loss before specific items, which excludes any goodwill impairment or restructuring costs, was £0.14 million (2010: profit £0.09 million) for the year.

In summary, we recognise that in order to achieve our targets we will need to return to a sustainable level of profit and we are continuing to restructure the business to achieve that goal but without accepting an unacceptable level of risk. Sustainable profitability will transform the business by allowing a continuing ability to increase net interest income at Conister Bank by utilising our strong capital base.

#### Conister Bank Limited

As reported previously one of the Bank's targets was to better manage the relationship between interest income and interest expense. This year the Bank grew this income by £1.54 million to £6.65 million (2010: £5.11 million) with only a modest increase in associated expenses of £0.16 million to £1.90 million (2010: £1.74 million). This allowed us to grow net interest income by £1.38 million to £4.75 million (2010: £3.37 million). This gain was negated by last year's one-off impairment credit of £1.03 million and the full year impact of the ECF Asset Finance PLC (ECF) cost base. This cost base has been reduced to reflect ECF's role of being the supplier of UK asset backed lending opportunities to the Bank. The majority of this cost reduction will flow through the financial statements in the second half of 2012. Also the costs for the year under review have been lessened by the inclusion of a one-off VAT recoverable following our appeal against the application of the Partial Exemption Special Method by the Isle of Man Customs and Excise. Your Board is confident that the amount included will be eventually recovered but will continue to review the position as described in note 21 to these accounts should there be any significant change. We have also, in conjunction with our auditors, carefully reviewed our provisioning policy and the level of provisions taken and the Board is comfortable that our approach is both prudent and conservative, reflecting the uncertainty in the general business environment.

The Bank remains solidly funded by retail deposits and this funding model ensures ample access to liquidity to satisfy the Bank's new lending forecasts. The Bank is also not exposed to the same market pressures as its competitors, who continue to find their funding cost volatile as a result of the high levels of political and fiscal uncertainty within the UK and the Eurozone.

The combination of plentiful access to liquidity and new emerging distribution networks allowed the Bank to increase advances by £3.13 million to £27.60 million (2010: £24.47 million) which in turn grew net deferred income by £0.46 million to £7.60 million (2010: £7.14 million). The deferred income balance has grown by over 67% in the last two years.

### Edgewater Associates Limited

Whilst Edgewater is an Isle of Man licensed IFA and the Island continues to show good GDP growth despite its major trading partner being in recession, Edgewater has been impacted by the turmoil in global and, in particular, European markets this year. The FTSE opened the year at 6,000 and apart from brief periods in February and April has traded below this figure throughout. The second half of the year witnessed large falls, with the Index mostly trading at well below 5,500 and at times as low as 5,000. These trends are indicative of Global Markets, with more pronounced losses in most European bourses. Renewal income is becoming an increasingly important source of revenue for Edgewater but this is dependent on the quantum of assets under management (AUM). As the value of the AUM reduced so did income, particularly in the second half of the year. Notwithstanding, Edgewater managed to grow its AUM to £130 million in the year (2010: £110 million).

Despite the adverse market conditions, Edgewater's renewal income has increased by 280% in the last two years and represented 49% of the business's turnover in the year under review. This is an undoubted and solid base from which to grow future revenues.

The business is well placed for the introduction of Retail Distribution Review and the recruitment of additional qualified consultants will contribute positively from 2012 onwards.

Also, during the year the business acquired an Isle of Man based general insurer who will offer general insurance products to existing customers of both Edgewater and Conister Bank.

### Conister Card Services Limited

The renewal of our major pre-paid contract for a minimum period of 12 months has allowed us to consider the future of this area of our business. Innovation continues to revolutionise this market place, for example the partnering of pre-paid/debit cards with mobile phones to allow cash to be loaded onto the card via a mobile phone. Innovation such as this will continue as mobile connectivity replaces traditional banking methods and opportunities are most likely to arise initially in countries with less developed banking systems. With all this in mind we continue to discuss ways to further leverage our MasterCard™ membership and grow the card business.

### Our People

I take great pleasure in welcoming Juan Kelly both to the Board and as Managing Director of Conister Bank and subsidiaries. Juan has already made a significant contribution to operations, particularly with regard to our restructuring the sales, customer service and underwriting functions to ensure greater efficiencies.

As always, I take this opportunity to thank all our staff for the continuing loyalty and contribution to the Group, particularly in a challenging year.

### Outlook

In previous Statements I have discussed acquisitions as a key component in generating the scale of operations the Group requires. I and the Board are still determined to pursue this process. We have reviewed many financial service businesses as potential purchases in the year under review and in subsequent months but without securing any targets to date. We are committed to only acquiring businesses that operate in profitable niche sectors with strong defensive qualities and unfortunately such businesses are in short supply. However, we continue to review candidates and I hope to be able to make an announcement in this area in the coming months. In the meantime, we will continue to grow a diversified distribution network for the Bank and to introduce new products.

It is clear that there is no immediate resolution to current economic uncertainty and this will be the environment in which we operate throughout 2012 and beyond. In times like these, we believe that we are correct to maintain our prudent approach to underwriting quality by only granting loans to customers with satisfactory credit quality. Thus I do not expect an immediate return to profitability at the end of the first half of 2012, but I do expect a significant reduction in any losses by the year end. I remain confident that despite this we will deliver on executing our strategy of growing into a profitable, sustainable and diversified financial services company. We continue to maintain a strong balance sheet where others have faltered.

Finally, I would like to thank you for your support as shareholders as we continue to develop the Group.

### Jim Mellon

Executive Chairman  
25 May 2012

# Manx Financial Group PLC

## Directors and Advisers

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**Jim Mellon (55)‡**  
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.



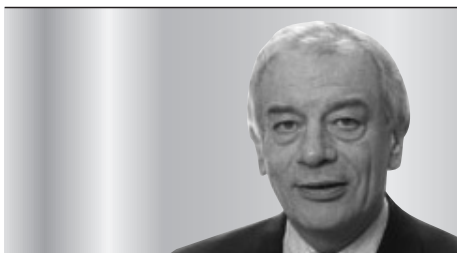
**Douglas Grant (47)‡**  
Executive Director

Douglas Grant was 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.

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



**Denham Eke (60)‡**  
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.



**Nick Sheard (49)‡**  
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.



**Juan Kelly (41)‡**  
Executive Director

Juan Kelly was appointed as an Executive Director of Manx Financial Group PLC and Managing Director of Conister Bank Limited on 19th September 2011.

His career started with Maersk before moving into structured finance with ABN AMRO in Chile and subsequently The Netherlands. Following this he joined SG Hambros in London, acting as adviser to a range of transactions. In 2004, he joined the London based Structured Finance team of Allied Irish Banks with a focus on large ticket asset finance, before being posted to Sydney as Head of Corporate & Asset Finance in the Asia Pacific region.

Juan has a wide range of experience within commercial and investment banking including building quality loan books and reviewing merger and acquisition opportunities.

#### Appointment

Appointed to the Board on 19 September 2011.



**Don McCrickard (75)‡**  
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 (46)‡**  
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.



**Alan Clarke (61)‡†\***  
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. 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 (65)‡†\***  
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 pic and Mountstephen Investments Limited and a Non-Executive Director for Rivington Street Holding PLC, an Isle of Man Finance Media conglomerate.

**Appointment**

Appointed to the Board on 12 February 2009.



**Oliver Hare (47)‡**  
Non-Executive Director

Appointed as a Non-Executive Director in January 2011. Oliver Hare is currently Managing Director of Commercial Intelligence Funds Group and Executive Director of Hawksburn Capital. He was previously Vice Chairman of Helvetica Wealth Management Partners S.A. in Geneva. Before founding Helvetica Wealth Management Partners in 2004, Mr Hare 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  
Bank Chambers,  
15-19 Athol Street,  
Douglas,  
Isle of Man, IM1 1LB.

**Registered Office**  
Clarendon House,  
Victoria Street, Douglas,  
Isle of Man, IM1 2LN.

**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,  
Peveiril Buildings,  
Peveiril Square, Douglas,  
Isle of Man, IM99 2LB.

**Consulting Actuaries**  
BWC Consulting Limited  
Albert House,  
South Esplanade,  
St Peter Port,  
Guernsey, GY1 3BY.

**Pension Fund Investment Manager**  
Thomas Miller Investment  
(Isle of Man) Limited  
Level 2,  
Samual Harris House,  
5-11 St George's Street,  
Douglas,  
Isle of Man, IM1 1AJ.

**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](http://www.mfg.im) which includes investor relations information and contact details.

# Manx Financial Group PLC

## Report of the Directors

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The Directors present their annual report and the audited financial statements for the year ended 31 December 2011.

### Principal activities

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

Conister Bank Limited (the Bank), a wholly owned subsidiary of the Company 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.

### 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 (2010: 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 2012 are:

	Number	%
Burnbrae Limited	16,000,000	17.86
Rene Nominees (IOM) Limited	15,049,825	16.80
Lynchwood Nominees Limited	7,505,912	8.38
J M Finn Nominees Limited	5,289,144	5.91
Island Farms Limited	4,222,319	4.71
David Hathersich-Jones	4,154,291	4.64

The Directors are not aware of any other individual holding of greater than 3% as at 14 February 2012.

### 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:

Oliver Hare was appointed on 14 January 2011.

Juan Kelly was appointed on 19 September 2011.

Simon Hull resigned on 11 March 2011.

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

	Number 31/12/11	Number 31/12/10
Jim Mellon*	17,585,332	17,085,332
Arron Banks†	14,899,825	14,899,825
Alan Clarke	52,149	52,149
David Gibson^	178,853	178,853
Douglas Grant	580,821	580,821
Oliver Hare <sup>¶</sup>	751,212	751,212
Don McCrickard>	66,666	66,666

\* 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 918,666 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 interested in 48.41% 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.

<sup>¶</sup> 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 Direct Investing 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 2011 there were 68 members of staff (2010: 82), of whom 10 were part-time (2010: 9).

**Investments in subsidiaries**

Investments in the Company's subsidiaries are disclosed in note 20 to the financial statements.

**Auditors**

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

**Corporate governance**

The UK Corporate Governance Code (the 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 ten Directors. Five of these are Non-Executive Directors and five are Executive Directors, including the Chairman. Oliver Hare was appointed as a Non-Executive Director in January 2011 and Juan Kelly was appointed as an Executive Director in September 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.

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:

- 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 website [www.mfg.im](http://www.mfg.im).

**The Audit, Risk & Compliance Committee (ARCC)**

The ARCC 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 Audit and Compliance functions have unfettered access to Committee members.

- Strategy and management of the Company including the long-term objectives and commercial strategy.

- Approval of the annual operational and capital expenditure budgets.

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# Manx Financial Group PLC

## Report of the Directors

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The ARCC also monitors the provision of non-audit services by the external Auditors to ensure the provision of such services does not impair the external Auditors' independence of objectivity.

### **The Remuneration Committee**

Refer to the 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

25 May 2012

## 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. 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

Executive Directors and senior management 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 or senior management 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 nor the Executive Chairman receive pension contributions.

## Non-Executive Directors

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

# Manx Financial Group PLC

## Directors' Remuneration Report

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### Directors' emoluments

	Remuneration/ Fees £	Bonus £	Pension £	2011 Total £	2010 Total £
<b>Executive Chairman</b>					
Jim Mellon	25,000	–	–	<b>25,000</b>	25,000
<b>Executive</b>					
Denham Eke	25,000	–	–	<b>25,000</b>	25,000
Juan Kelly*	39,519	–	3,425	<b>42,944</b>	–
Simon Hull*	48,308	–	3,418	<b>51,726</b>	164,400
Douglas Grant	127,917	–	12,500	<b>140,417</b>	154,584
Nick Sheard	91,833	–	8,683	<b>100,516</b>	101,940
<b>Non-Executive</b>					
Arron Banks	12,500	–	–	<b>12,500</b>	12,500
Alan Clarke	37,500	–	–	<b>37,500</b>	37,500
David Gibson	37,500	–	–	<b>37,500</b>	37,500
Oliver Hare <sup>^</sup>	23,782	–	–	<b>23,782</b>	–
Ilyas Khan	–	–	–	–	12,500
Don McCrickard	37,500	–	–	<b>37,500</b>	37,500
Aggregate emoluments	506,359	–	28,026	<b>534,385</b>	608,424

\*Simon Hull resigned on 11 March 2011.

\*Juan Kelly was appointed on 19 September 2011.

<sup>^</sup>Oliver Hare was appointed on 14 January 2011.

### Approval

This report was approved by the Board of Directors on 16 May 2012 and signed on its behalf by:

#### Alan Clarke

Chairman of the Remuneration Committee

25 May 2012

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**Manx Financial Group PLC**  
**Statement of Directors' Responsibilities in respect of the**  
**Directors' Report and the Financial Statements**

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 year.

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.

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# Manx Financial Group PLC

## Report of the Independent Auditors

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### 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 2011 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 Auditors

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 2011 and of the Group's loss for the year then ended; and
- have been properly prepared in accordance with IFRSs.

### Emphasis of Matter – Reclaim of Value Added Tax

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 21 to the financial statements concerning the reclaim of Value Added Tax (VAT).

Conister Bank Limited, as the Group VAT registered agent, has for some time considered the VAT recovery rate obtained by the business to be neither fair nor reasonable, specifically regarding the attribution of part of the residual input tax relating to the Hire Purchase business not being considered as a taxable supply and have raised a number of queries with the Isle of Man Government Customs and Excise Division (C&E) in this regard over a number of years.

The Group considers that the Volkswagen Financial Services Limited decision in August 2011 by the First Tier Tax Tribunal (the Tribunal) of HM Revenue & Customs in relation to the basis of calculation of VAT recovery on instalment credit transactions adds significant weight to the case put forward by the Group to C&E, including the request to C&E for a revised Partial Exemption Special Method as submitted in December 2011. HM Revenue & Customs have appealed the decision of the Tribunal, and it is presently anticipated that the result of this Appeal will be available in autumn 2012.

The Directors believe that the Group will be able to recover a reclaim of VAT retrospectively, utilising the revised Partial Exemption Special Method. The Directors are satisfied that the Group will ultimately recover an amount of £684,000, and accordingly this has been included in the financial statements for the year ended 31 December 2011. Due to the inherent uncertainty associated with the determination of the Tribunal appeal and its impact on negotiations with C&E, the amount of retrospective VAT recovered may differ materially from the amount at which it is stated in the financial statements.

### KPMG Audit LLC

Chartered Accountants  
25 May 2012  
Heritage Court,  
41 Athol Street,  
Douglas,  
Isle of Man,  
IM99 1HN.



**Manx Financial Group PLC**  
**Consolidated Statement**  
**of Comprehensive Income**

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For the year ended 31 December	Notes	2011 £000	2010 £000
Interest Income	6	6,650	5,103
Interest expense	7	<u>(2,065)</u>	<u>(1,866)</u>
<b>Net interest income</b>		<b>4,585</b>	<b>3,237</b>
Fee and commission income		<b>1,191</b>	654
Fee and commission expense		<u>(739)</u>	<u>(700)</u>
<b>Net fee and commission income/(expense)</b>		<b>452</b>	<b>(46)</b>
<b>Net trading income</b>		<b>5,037</b>	<b>3,191</b>
Other operating income		<b>903</b>	1,041
Programme costs		<u>(485)</u>	<u>(449)</u>
Foreign exchange (loss)/gain		<u>(10)</u>	<u>12</u>
<b>Operating income</b>		<b>5,445</b>	<b>3,795</b>
Personnel expenses		<b>(3,314)</b>	(2,713)
Depreciation	19	<u>(234)</u>	<u>(163)</u>
Other expenses		<u>(2,309)</u>	<u>(1,688)</u>
VAT recoverable	21	<b>684</b>	–
Provision for impairment of loan assets	8	<u>(463)</u>	1,027
Depositors' Compensation Scheme	10	–	2
Realised gains on available-for-sale investments		<b>41</b>	26
Unrealised gain/(loss) on financial assets carried at fair value	16	<u>15</u>	<u>(200)</u>
<b>(Loss)/profit before specific items</b>		<b>(135)</b>	<b>86</b>
Impairment of goodwill		<u>(111)</u>	–
Acquisition and restructuring costs	9	<u>(537)</u>	<u>(274)</u>
<b>Loss before income tax expense</b>	11	<b>(783)</b>	<b>(188)</b>
Income tax expense	12	–	–
<b>Loss for the year</b>		<b>(783)</b>	<b>(188)</b>
<b>Other comprehensive income</b>			
Available-for-sale gains taken to equity		<b>3</b>	–
Actuarial (loss)/gain on defined benefit pension scheme	25	<u>(19)</u>	<u>5</u>
<b>Total comprehensive loss for the period attributable to owners</b>		<b>(799)</b>	<b>(183)</b>
Basic and diluted loss per share (pence)	13	<b>(0.88)</b>	<b>(0.24)</b>

The notes on pages 17 to 48 form part of these Financial Statements.

The Directors believe that all results derive from continuing activities.

# Manx Financial Group PLC

## Consolidated and Company

### Statement of Financial Position

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As at 31 December	Notes	Group		Company	
		2011 £000	2010 £000	2011 £000	2010 £000
<b>Assets</b>					
Cash and cash equivalents	15	2,335	4,795	–	–
Financial assets at a fair value through profit or loss	16	189	174	–	174
Available-for-sale financial instruments	17	10,495	7,292	–	–
Loans and advances to customers	18	49,525	48,678	–	–
Commissions receivable		234	237	–	–
Property, plant and equipment	19	814	760	–	–
Investment in Group undertakings	20	–	–	12,067	12,067
Trade and other receivables	21	1,260	449	31	15
Goodwill	20	2,344	2,203	–	–
<b>Total assets</b>		<b>67,196</b>	<b>64,588</b>	<b>12,098</b>	<b>12,256</b>
<b>Liabilities</b>					
Customer accounts	22	55,910	52,745	–	–
Creditors and accrued charges	23	855	978	93	209
Amounts owed to Group undertakings		–	–	2,962	2,418
Loan notes	24	2,210	1,710	2,210	1,710
Deferred consideration	23	492	475	492	475
Pension liability	25	79	60	–	–
<b>Total liabilities</b>		<b>59,546</b>	<b>55,968</b>	<b>5,757</b>	<b>4,812</b>
<b>Equity</b>					
Called up share capital	26	18,433	18,258	18,433	18,258
Profit and loss account		(10,783)	(9,638)	(12,092)	(10,814)
<b>Total equity</b>		<b>7,650</b>	<b>8,620</b>	<b>6,341</b>	<b>7,444</b>
<b>Total liabilities and equity</b>		<b>67,196</b>	<b>64,588</b>	<b>12,098</b>	<b>12,256</b>

The Financial Statements were approved by the Board of Directors on 25 May 2012 and signed on its behalf by:

**Jim Mellon**  
Executive Chairman

**Denham Eke**  
Chief Executive Officer

**Douglas Grant**  
Group Finance Director

The notes on pages 17 to 48 form part of these Financial Statements.

# Manx Financial Group PLC

## Consolidated Statement of Cash Flows

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For the year ended 31 December	Notes	2011 £000	2010 £000
<b>RECONCILIATION OF LOSS BEFORE TAXATION TO OPERATING CASH FLOWS</b>			
Loss before tax on continuing activities		(783)	(188)
Unrealised (gain)/loss on financial assets carried at fair value		(15)	200
Loss on disposal of property, plant and equipment		6	3
Depreciation charge	11,19	234	163
Realised gains on available-for-sale investments		(41)	(26)
Shares issued in lieu of bonuses	26	–	26
Available-for-sale gains taken to equity		3	–
Actuarial (loss)/gain on defined benefit pension scheme taken to equity	25	(19)	5
Increase/(decrease) in pension liability	25	19	(6)
Share-based payment expense/(credit)	26	4	(178)
(Increase)/decrease in trade and other receivables		(820)	69
Decrease in trade and other payables		(123)	(589)
Decrease in commission debtors		3	55
Impairment of goodwill		111	–
		<u>(1,421)</u>	<u>(466)</u>
Net cash outflow from trading activities			
		(1,421)	(466)
Increase in loans and advances to customers		(1,058)	(13)
Increase in deposit accounts		3,165	3,202
		<u>686</u>	<u>2,723</u>
<b>Cash inflow from operating activities</b>		<b>686</b>	<b>2,723</b>
<b>CASH FLOW STATEMENT</b>			
<b>Cash flows from operating activities</b>			
Cash inflow from operating activities		686	2,723
Taxation paid		–	–
		<u>686</u>	<u>2,723</u>
<b>Net cash inflow from operating activities</b>		<b>686</b>	<b>2,723</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	19	(323)	(179)
(Purchase)/sale of available-for-sale financial instruments	17	(3,162)	2,723
Sale of property, plant and equipment		29	12
Acquisition of subsidiaries net of cash acquired	20	(32)	(11,573)
Payment of deferred consideration		(158)	–
		<u>(3,646)</u>	<u>(9,017)</u>
<b>Net cash outflow from investing activities</b>		<b>(3,646)</b>	<b>(9,017)</b>
<b>Cash flows from financing activities</b>			
Issue of loan notes	24	500	1,710
Issue of ordinary share capital	26	–	1,903
Repayment of subordinated loan	29	–	(500)
		<u>500</u>	<u>3,113</u>
<b>Net cash inflow from financing activities</b>		<b>500</b>	<b>3,113</b>
<b>Decrease in cash and cash equivalents</b>		<b>(2,460)</b>	<b>(3,181)</b>

The notes on pages 17 to 48 form part of these Financial Statements.

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

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For the year ended <b>Group</b>	<b>Share capital £000</b>	<b>Retained earnings £000</b>	<b>2011 £000</b>	2010 £000
Balance as at 1 January	18,258	(9,638)	<b>8,620</b>	6,052
Loss for the year	–	(783)	<b>(783)</b>	(188)
Other comprehensive (expense)/income	–	(16)	<b>(16)</b>	5
<b>Transactions with owners:</b>				
Arising on Shares issued in the year	175	(175)	–	2,404
Adjustment to deferred consideration				
Shares to be issued (see note 23)	–	(175)	<b>(175)</b>	–
Share-based payment expense	–	4	<b>4</b>	347
Balance as at 31 December	18,433	(10,783)	<b>7,650</b>	8,620

For the year ended <b>Company</b>	<b>Share capital £000</b>	<b>Retained earnings £000</b>	<b>2011 £000</b>	2010 £000
Balance as at 1 January	18,258	(10,814)	<b>7,444</b>	6,029
Loss for the year	–	(932)	<b>(932)</b>	(1,336)
<b>Transactions with owners:</b>				
Arising on Shares issued in the year	175	(175)	–	2,404
Adjustment to deferred consideration				
Shares to be issued (see note 23)	–	(175)	<b>(175)</b>	–
Share-based payment expense	–	4	<b>4</b>	347
Balance as at 31 December	18,433	(12,092)	<b>6,341</b>	7,444

The notes on pages 17 to 48 form part of these Financial Statements.

## 1. Reporting entity

Manx Financial Group PLC is a company incorporated in the Isle of Man. The consolidated financial statements of Manx Financial Group PLC (the Company) for the twelve months ended 31 December 2011 comprise the Company and its subsidiaries (the Group).

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

## 2. Basis of preparation

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (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 2010 annual report.

### (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.

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# Manx Financial Group PLC

## Notes to the Consolidated Financial Statements

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### 3. Significant accounting policies (continued)

#### (b) 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.

The Group measures goodwill at the acquisition date as:

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

When the excess is negative, a bargain purchase gain is recognised immediately in the 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 the 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 HP and finance lease agreements, 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.

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# Manx Financial Group PLC

## Notes to the Consolidated Financial Statements

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### 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 remuneration.

Under the defined benefit pension plan, in accordance with IAS 19 Employee benefits, the full service cost for the period, adjusted for any changes to the plan, is charged to the 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 Trust Limited (now Conister Bank Limited). Since the Scheme of Arrangement, the shareholders of Conister Bank Limited became shareholders of Manx Financial Group PLC. 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 HP contracts

When assets are subject to a finance lease or HP 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. HP and lease income is recognised over the term of the contract or lease reflecting a constant periodic rate of return on the net investment in the contract or lease.

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

### 3. Significant accounting policies (continued)

#### (i) Leases (continued)

##### 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.

# Manx Financial Group PLC

## Notes to the Consolidated Financial Statements

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### 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:

<b>New/revised International Accounting Standards/International Financial Reporting Standards (IAS/IFRS)</b>	<b>Effective date</b> (accounting periods commencing on or after)
IAS 1 Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented (June 2011)	1 July 2012
IAS 12 Income Taxes – Limited scope amendment (recovery of underlying assets) (December 2010)	1 January 2012
IAS 19 Employee Benefits - Amendment resulting from the Post-Employment Benefits and Termination Benefits projects (as amended in June 2011)	1 January 2013
IAS 27 Consolidated and Separate Financial Statements – Reissued as IAS 27 Separate Financial Statements (as amended in May 2011)	1 January 2013
IAS 28 Investments in Associates – Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in May 2011)	1 January 2013
IAS 32 Financial Instruments Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities (December 2011)	1 January 2014
IFRS 7 Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets (October 2010)	1 July 2011
IFRS 7 Financial Instruments: Disclosures – Amendments enhancing disclosures about offsetting of financial assets and financial liabilities (December 2011)	1 January 2013
IFRS 7 Financial Instruments: Disclosures – Amendments requiring disclosures about the initial application of IFRS 9 (December 2011)	1 January 2015
IFRS 9 Financial Instruments - Classification and measurement of financial assets (as amended in December 2011)	1 January 2015
IFRS 9 Financial Instruments – Accounting for financial liabilities and derecognition (as amended in December 2011)	1 January 2015
IFRS 10 Consolidated Financial Statements (May 2011)	1 January 2013
IFRS 11 Joint Arrangements (May 2011)	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities (May 2011)	1 January 2013
IFRS 13 Fair Value Measurement (May 2011)	1 January 2013

In 2009 and 2010, the IASB issued IFRS 9 Financial Instruments which contains new requirements for accounting for financial assets and liabilities, and will contain new requirements for impairment and hedge accounting, replacing the corresponding requirements in IAS 39. It will lead to significant changes in the way that the Group accounts for impairment provisions. Expected losses (rather than only incurred losses) will be reflected in impairment allowances for financial assets that are not classified as fair value through profit or loss.

Adoption is not mandatory until periods beginning on or after 1 January 2015. Earlier adoption is possible. At this stage, it is not possible to fully determine the potential financial impacts of adoption of IFRS 9 on the Group.

In addition, the IASB has indicated that it will issue a new standard on accounting for leases. Under the proposals, lessees would be required to recognise assets and liabilities arising from both operating and finance leases on the balance sheet.

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

#### (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(i), credit risk. The Group has substantial historical data upon which to base collective estimates for impairment on HP contracts, finance leases and personal loans. The 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.

### 3. Significant accounting policies (continued)

#### (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 Directors of the Bank (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 obligation. 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.

# Manx Financial Group PLC

## Notes to the Consolidated Financial Statements

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

##### (a) Risk management (continued)

##### i) Credit risk (continued)

##### Management of credit risk

The Board 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 the Bank or the CC. The CC reviews lending assessments in excess of individual credit control or executive discretionary limits.
- Reviewing and assessing existing credit risk and collateral. The CC assesses all credit exposures in excess of designated limits, as set out in the underwriting manual (for asset and personal finance).
- Limiting concentrations of exposure to counterparties, geographies and industries (defining sector limits 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 of the Bank 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:

	2011 £000	2010 £000
Loans and advances to customers		
<b>Carrying amount</b>	<b>49,525</b>	48,678
Individually impaired <sup>1</sup>		
Grade A	189	193
Grade B	29	74
Grade C	<b>5,954</b>	6,267
Gross value	<b>6,172</b>	6,534
Allowance for impairment	<b>(4,305)</b>	(4,174)
<b>Carrying value</b>	<b>1,867</b>	2,360
<b>Collective allowance for impairment</b>	<b>(225)</b>	(490)
Past due but not impaired		
Less than 1 month	<b>1,996</b>	1,333
1 month but less than 2 months	<b>849</b>	823
2 months but less than 3 months	<b>207</b>	29
3 months and over	<b>334</b>	25
<b>Carrying value</b>	<b>3,386</b>	2,210
Neither past due nor impaired	<b>44,497</b>	44,598

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



#### 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 HP, finance leases, vehicle stocking plans, block discounting and secured commercial loan balances, which are sub-categories 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 within the sub-categories listed above, the loan balances due are secured over the underlying assets held as collateral, see note 18 for further details.

##### Concentration of credit risk

##### Geographical

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

##### Segmental

The Group is exposed to credit risk with regard to customer loan accounts, comprising HP and finance lease 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.

# Manx Financial Group PLC

## Notes to the Consolidated Financial Statements

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

##### (a) Risk management (continued)

##### ii) Liquidity risk (continued)

##### Management of 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 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 the Bank 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 2011	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	1,482	2,132	2,021	4,262	20,179	20,158	10,230	–	60,464
Other liabilities	855	–	–	334	–	158	2,210	79	3,636
<b>Total liabilities</b>	<b>2,337</b>	<b>2,132</b>	<b>2,021</b>	<b>4,596</b>	<b>20,179</b>	<b>20,316</b>	<b>12,440</b>	<b>79</b>	<b>64,100</b>
31 December 2010	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
<b>Total liabilities</b>	<b>4,297</b>	<b>2,381</b>	<b>3,407</b>	<b>2,179</b>	<b>21,971</b>	<b>20,127</b>	<b>4,921</b>	<b>60</b>	<b>59,343</b>

## 4. Risk and capital management (continued)

## (a) Risk management (continued)

## ii) Liquidity risk (continued)

## Management of liquidity risk (continued)

*Measurement of liquidity risk (continued)*

## Maturity of assets and liabilities at the balance sheet date

31 December 2011	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
<b>Assets</b>									
Cash and cash equivalents	2,335	-	-	-	-	-	-	-	2,335
Available-for-sale financial instruments	1,000	9,495	-	-	-	-	-	-	10,495
Customer accounts receivable	2,322	1,226	3,274	5,103	8,720	23,532	5,348	-	49,525
Commission debtors	-	73	143	7	11	-	-	-	234
Other assets	-	-	-	-	90	179	179	4,159	4,607
<b>Total assets</b>	<b>5,657</b>	<b>10,794</b>	<b>3,417</b>	<b>5,110</b>	<b>8,821</b>	<b>23,711</b>	<b>5,527</b>	<b>4,159</b>	<b>67,196</b>
<b>Liabilities</b>									
Customer accounts	1,478	2,091	1,978	4,130	19,179	18,585	8,469	-	55,910
Other liabilities	856	-	-	333	-	158	2,210	79	3,636
<b>Total liabilities</b>	<b>2,334</b>	<b>2,091</b>	<b>1,978</b>	<b>4,463</b>	<b>19,179</b>	<b>18,743</b>	<b>10,679</b>	<b>79</b>	<b>59,546</b>
<b>31 December 2010</b>									
	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
<b>Assets</b>									
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
<b>Total assets</b>	<b>6,911</b>	<b>8,936</b>	<b>4,928</b>	<b>5,846</b>	<b>9,924</b>	<b>22,239</b>	<b>3,264</b>	<b>3,170</b>	<b>64,588</b>
<b>Liabilities</b>									
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
<b>Total liabilities</b>	<b>5,183</b>	<b>1,470</b>	<b>3,383</b>	<b>2,133</b>	<b>21,040</b>	<b>18,677</b>	<b>4,022</b>	<b>60</b>	<b>55,968</b>

# Manx Financial Group PLC

## Notes to the Consolidated Financial Statements

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#### 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 Marsh 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. The only significant exposure relates to the financial asset carried at fair value through profit and loss, which is an equity investment stated at market value. Given the size of this holding, £189,000 at 31 December 2011 (2010: £174,000) the potential impact on the results of the Group is relatively small and no sensitivity analysis has been provided for the market price risk.

##### Interest rate risk

Interest rate risk exposure in the Bank arises from the difference between the maturity of capital and interest payable on customer deposit accounts, and the maturity of capital and interest receivable on loans and financing. The differing maturities on these products create interest rate risk exposures due to the imperfect matching of different financial assets and liabilities. The risk is managed on a continuous basis by management and reviewed by the Board of 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 2011	Sight*	> 1 month	> 3 months	> 6 months	> 1 year	> 3 years		Total
	- 1 month	- 3 months	- 6 months	- 1 year	- 3 years	- 5 years	> 5 years	£000
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Assets</b>								
Cash and cash equivalents	2,335	-	-	-	-	-	-	2,335
Available-for-sale financial instruments	10,495	-	-	-	-	-	-	10,495
Customer accounts receivable	3,548	3,274	5,103	8,720	23,532	5,348	-	49,525
Commission debtors	72	144	7	11	-	-	-	234
Other assets	2,263	-	-	-	-	-	2,344	4,607
<b>Total assets</b>	<b>18,713</b>	<b>3,418</b>	<b>5,110</b>	<b>8,731</b>	<b>23,532</b>	<b>5,348</b>	<b>2,344</b>	<b>67,196</b>
<b>Liabilities</b>								
Customer accounts	3,568	1,978	4,130	19,179	18,586	8,469	-	55,910
Other liabilities	856	-	333	-	158	2,210	79	3,636
Total capital and reserves	7,650	-	-	-	-	-	-	7,650
<b>Total liabilities and equity</b>	<b>12,074</b>	<b>1,978</b>	<b>4,463</b>	<b>19,179</b>	<b>18,744</b>	<b>10,679</b>	<b>79</b>	<b>67,196</b>
Interest rate sensitivity gap	6,639	1,440	647	(10,448)	4,788	(5,331)	2,265	-
<b>Cumulative</b>	<b>6,639</b>	<b>8,079</b>	<b>8,726</b>	<b>(1,722)</b>	<b>3,066</b>	<b>(2,265)</b>	<b>-</b>	<b>-</b>

## 4. Risk and capital management (continued)

## (a) Risk management (continued)

## (iv) Market risk (continued)

## Interest risk re-pricing table (continued)

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
<b>Assets</b>								
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
<b>Total assets</b>	<b>15,610</b>	<b>4,535</b>	<b>5,846</b>	<b>9,924</b>	<b>22,239</b>	<b>3,264</b>	<b>3,170</b>	<b>64,588</b>
<b>Liabilities</b>								
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
<b>Total liabilities and equity</b>	<b>15,272</b>	<b>3,383</b>	<b>2,133</b>	<b>21,040</b>	<b>18,677</b>	<b>4,023</b>	<b>60</b>	<b>64,588</b>
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)	–	–

**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 (2010: 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 2011	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
<b>Interest rate sensitivity gap</b>	<b>6,640</b>	<b>1,440</b>	<b>646</b>	<b>(10,448)</b>	<b>4,788</b>	<b>(5,331)</b>	<b>2,265</b>	<b>–</b>
<b>Weighting</b>	<b>0.000</b>	<b>0.003</b>	<b>0.007</b>	<b>0.014</b>	<b>0.027</b>	<b>0.054</b>	<b>0.115</b>	<b>–</b>
<b>£000</b>	<b>–</b>	<b>4</b>	<b>5</b>	<b>(146)</b>	<b>129</b>	<b>(288)</b>	<b>260</b>	<b>(36)</b>
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	–
£000	–	3	26	(156)	96	(41)	358	286

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

# Manx Financial Group PLC

## Notes to the Consolidated Financial Statements

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

##### (b) Capital Management (continued)

###### 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.

#### 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 and block discounting); 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 £172,452 (2010: £265,316) 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 2011 £000
Net interest income	4,242	343	-	-	-	4,585
Operating Income	3,565	343	369	1,168	-	5,445
Provision for impairment	(252)	(211)	-	-	-	(463)
Profit before unallocated items	448	131	181	6	16	782
Group central costs	-	-	-	-	-	(917)
<b>Loss before specific items</b>						<b>(135)</b>
Capital Expenditure	307	-	-	16	-	323
<b>Total assets</b>	<b>63,336</b>	<b>1,137</b>	<b>144</b>	<b>2,389</b>	<b>190</b>	<b>67,196</b>
<b>Total liabilities and equity</b>	<b>65,594</b>	<b>1,137</b>	<b>10</b>	<b>455</b>	<b>-</b>	<b>67,196</b>



**5. Segmental analysis (continued)**

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

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 interest on bank balances.

**7. Interest expense**

	2011 £000	2010 £000
Payable to depositors	1,901	1,730
Payable on subordinated loan (note 29)	–	10
Payable on loan notes	164	126
	<b>2,065</b>	1,866

# Manx Financial Group PLC

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### 8. Allowance for impairment

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

	2011 £000	2010 £000
Specific impairment allowances made	781	194
Reversal of allowances previously made	(62)	(1,250)
<b>Total charge/(credit) for specific provision for impairment</b>	<b>719</b>	<b>(1,056)</b>

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

	2011 £000	2010 £000
Collective impairment allowances made	129	53
Release of allowances previously made	(385)	(24)
<b>Total (credit)/charge for collective allowances for impairment</b>	<b>(256)</b>	<b>29</b>
<b>Total charge/(credit) for allowances for impairment</b>	<b>463</b>	<b>(1,027)</b>

### 9. Acquisition and restructuring costs

Restructuring costs in the current year relate to a reorganisation and rationalisation across the Group.

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

	2011 £000	2010 £000
<b>Acquisition costs</b>		
Legal and professional fees	–	181
<b>Reorganisation of UK and IOM operations</b>		
Salary and redundancy costs	537	93
	<b>537</b>	<b>274</b>

### 10. Depositors' Compensation Scheme

	2011 £000	2010 £000
Provision in respect of Kaupthing Singer & Friedlander (Isle of Man) Limited	–	(2)
	–	(2)

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. A payment of £73,880 was made in the current period, in addition to advances of £73,880 made into the Scheme during each of the previous two financial periods. The current year's payment is expected to be repaid, therefore no charge has been made to the Consolidated Statement of Comprehensive Income. The £2,000 credit in 2010 reflects the reversal of the over provision from 2009.

**11. Loss before taxation**

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

	2011 £000	2010 £000
Depreciation	234	163
Loss on sale of fixed assets	6	3
Share option expense	4	(178)
Directors' remuneration	307	352
Directors' fees	199	188
Directors' pensions	28	35
Directors' bonuses	–	33
Auditors' remuneration as Auditors current year	79	72
as Auditors under-accrual for prior year	4	–
non-audit services	131	138
Pension cost defined contribution scheme	122	68
Operating lease rentals for property	322	141

**12. Income tax expense**

The main rate of income tax in the Isle of Man is 0% (2010: 0%), however the profits of the Group's Manx banking activities are taxed at 10% (2010: 10%). The profits of the Group's subsidiaries that are subject to UK corporation tax are taxed at a rate of 26.5% (2010: 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 (2010: £0.5 million) in respect of tax losses carried forward, net of accelerated capital allowances.

**13. Loss per share**

	2011 £000	2010 £000
Loss for the year	(783)	(188)
	Number	Number
Weighted average number of ordinary shares in issue	89,213,979	76,143,178
Basic and diluted loss per share	(0.88)p	(0.24)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 £932,000 (2010: £1,336,000).

# Manx Financial Group PLC

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### 15. Cash and cash equivalents

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Cash at bank and in hand	1,789	2,656	–	–
Short-term deposits	546	2,139	–	–
	<b>2,335</b>	<b>4,795</b>	–	–

Cash at bank includes an amount of £8,949 (2010: £29,040) representing cheques issued in the course of transmission. The remaining maturity of short-term deposits is as follows:

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Less than 8 days	546	2,139	–	–
	<b>546</b>	<b>2,139</b>	–	–

### 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.

### 17. Available-for-sale financial instruments

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
UK Government Treasury Bills	10,495	7,292	–	–
	<b>10,495</b>	<b>7,292</b>	–	–

UK Government Treasury Bills are stated at fair value and unrealised changes in the fair value are reflected in equity, see page 13.

## 18. Loans and advances to customers

Group	2011			2010		
	Gross Amount £000	Impairment Allowance £000	Carrying Value £000	Gross Amount £000	Impairment Allowance £000	Carrying Value £000
HP balances	33,810	(624)	33,186	30,420	(1,062)	29,358
Finance lease balances	5,640	(628)	5,012	11,306	(1,209)	10,097
Litigation funding	2,972	(1,835)	1,137	2,634	(1,623)	1,011
Unsecured personal loans	3,399	(434)	2,965	3,602	(522)	3,080
Vehicle stocking plans	1,397	–	1,397	1,341	–	1,341
Block discounting	3,724	(9)	3,715	989	–	989
Secured commercial loans	3,113	(1,000)	2,113	3,049	(247)	2,802
	<b>54,055</b>	<b>(4,530)</b>	<b>49,525</b>	<b>53,341</b>	<b>(4,663)</b>	<b>48,678</b>

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

	2011 £000	2010 £000
<b>Specific allowance for impairment</b>		
Balance at 1 January	4,173	4,103
Provisions as a result of acquisition of business	–	1,510
Specific allowance for impairment made	781	(1,125)
Write-offs	(649)	(315)
<b>Balance at 31 December</b>	<b>4,305</b>	<b>4,173</b>
<b>Collective allowance for impairment</b>		
Balance at 1 January	490	333
Provisions as a result of acquisition of business	–	129
Collective allowance for impairment made	129	52
Release of allowances previously made	(394)	(24)
<b>Balance at 31 December</b>	<b>225</b>	<b>490</b>
<b>Total allowances for impairment</b>	<b>4,530</b>	<b>4,663</b>

Advances on preferential terms are available to all Directors, management and staff. As at 31 December 2011 £166,710 (2010: £144,539) 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 three loan exposures exceeded 10% of the capital base on the Group see details below (2010: two loan exposures).

Exposure	Outstanding balance 2011 £000	Outstanding balance 2010 £000	Facility limit (if applicable) £000
Finance lease	1,037	1,655	N/a
Secured commercial loan	1,849	1,870	1,870
Block discounting facility	767	437	1,000

On 29 March 2012 the full amount outstanding under the finance lease noted above was settled.

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### 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.

	2011 £000	2010 £000
<b>Gross investment in HP and finance lease receivables</b>		
Less than one year	19,295	20,131
Between one and five years	26,962	28,000
	<u>46,257</u>	<u>48,131</u>
<b>The investment in HP and finance lease receivables net of unearned income comprises:</b>		
Less than one year	16,049	16,951
Between one and five years	23,401	24,775
Net investment in HP and finance lease receivables	<u>39,450</u>	<u>41,726</u>

### 19. Property, plant and equipment

Group	Leashold Improvements £000	IT Equipment £000	Furniture & Equipment £000	Motor Vehicles £000	Total £000
<b>Cost</b>					
As at 1 January 2011	31	763	593	167	1,554
Additions	170	96	13	44	323
Disposals	(31)	(73)	(24)	(27)	(155)
<b>As at 31 December 2011</b>	<u>170</u>	<u>786</u>	<u>582</u>	<u>184</u>	<u>1,722</u>
<b>Accumulated depreciation</b>					
As at 1 January 2011	(11)	(286)	(415)	(82)	(794)
Charge for year	(6)	(147)	(45)	(36)	(234)
Disposals	16	73	24	7	120
<b>As at 31 December 2011</b>	<u>(1)</u>	<u>(360)</u>	<u>(436)</u>	<u>(111)</u>	<u>(908)</u>
<b>Carrying value at 31 December 2011</b>	<u>169</u>	<u>426</u>	<u>146</u>	<u>73</u>	<u>814</u>
Carrying value at 31 December 2010	20	477	178	85	760

Fixed assets with a net book value of £629,000 (2010: £542,000) are held by Conister Bank Limited. These comprise furniture and equipment of £43,000 (2010: £46,000), leasehold improvements of £168,000 (2010: £20,000) and IT equipment of £418,000 (2010: £477,000).

Fixed assets with a net book value of £71,000 (2010: £69,000) are held by Conister Finance and Leasing Ltd, all of which relate to motor vehicles.

Fixed assets with a net book value of £92,000 (2010: £86,000) are held by Edgewater Associates Limited. These comprise furniture and equipment of £84,000 (2010: £86,000) and IT equipment £8,000 (2010: £nil).

Fixed assets with a net book value of £22,000 (2010: £63,000) are held by ECF Asset Finance PLC. These comprise furniture and equipment of £19,000 (2010: £46,000) and motor vehicles of £3,000 (2010: £17,000).

## 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 2011 % Holding	Date of incorporation	Total 2011 £	Total 2010 £
Conister Bank Limited	Asset and personal finance	100	5.12.1935	10,067,000	10,067,000
TransSend Holdings Limited	Holding Company for prepaid card division	100	5.11.2007	–	–
Bradburn Limited	Holding Company	100	15.05.2009	1	1
Edgewater Associates Limited	Wealth Management	100	24.12.1996	2,000,000	2,000,000
				<b>12,067,001</b>	<b>12,067,001</b>

## Goodwill

Goodwill	Group 2011 £000	Group 2010 £000
Edgewater Associates Limited (EWA)	1,849	1,849
ECF Asset Finance PLC (ECF)	354	354
Three Spires Insurance Services Limited (Three Spires)	41	–
	<b>2,244</b>	<b>2,203</b>
Acquisition adjustment ECF	211	–
Impairment ECF	(111)	–
	<b>2,344</b>	<b>2,203</b>

Following a detailed review of the acquired ECF loan book at 30 June 2011 an adjustment was made to the fair value of the assets acquired under the provisions of IFRS 3. A reduction of £211,000 (2010: nil) was made to the value of certain loan assets where evidence from the review identified that the recoverable value assumed at the date of acquisition was overstated.

Goodwill on the ECF acquisition was reviewed for impairment based on anticipated future business and an impairment provision of £111,000 (2010: nil) was made during the year.

## Goodwill impairment

The goodwill is considered to have an indefinite life and is reviewed on an annual basis by comparing its estimated recoverable amount with its carrying value. The estimated recoverable amount in relation to the goodwill generated on the purchase of EWA is based on the forecasted 3 year profit numbers, extrapolated to 10 years using a 5% annual increment, and then discounted using a 10% discount factor. The sensitivity of the analysis was tested using additional discount factors of 15% and 20% and stable profit levels.

The estimated recoverable amount in relation to the goodwill generated on the purchase of ECF is based on forecasted 3 year sales interest income (calculated at 5% margin), extrapolated to 10 years using a 5% annual increment, and then discounted using a 10% discount factor. The sensitivity of the analysis was tested using additional discount factors of 15% and 20% and varying sales volumes.

On the basis of the above reviews no impairment to goodwill has been made in the current year other than that noted separately above.

The goodwill generated on the purchase of Three Spires has not been reviewed at the current year end due to the short amount of time between the acquisition and year end. The goodwill will be reviewed for impairment in a similar way to both EWA and ECF for future years.



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### 20. Investment in Group Undertakings (continued)

#### Acquisitions

##### Three Spires

On 21 June 2011, EWA (a subsidiary of Manx Financial Group PLC) acquired the entire share capital of Three Spires, an Independent Financial Advisor and General Insurance broker based in the Isle of Man. Three Spires is regulated by the Insurance and Pensions Authority.

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

<b>Consideration transferred</b>	<b>2011 £000</b>
Cash	57
Deferred consideration	20
	<hr/>
	77

#### Deferred consideration

The deferred element of the consideration was payable in cash over the three month period from July to September 2011 on the last day of the month.

<b>Identifiable assets acquired and liabilities assumed</b>	<b>2011 £000</b>
Cash	45
Trade and other receivables	4
Trade and other payables	(13)
	<hr/>
Total identifiable net assets	36

<b>Goodwill</b>	<b>2011 £000</b>
Total consideration transferred	77
Fair value of identifiable net assets	(36)
	<hr/>
Goodwill	41

The goodwill attributable to Three Spires is in relation to its established IFA and general insurance client base and the skills and experience of its staff.

**21. Trade and other receivables**

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Trade debtors	114	207	–	–
Prepayments and other debtors	462	242	20	9
VAT recoverable	684	–	11	6
	<b>1,260</b>	449	<b>31</b>	15

Included in trade and other receivables is an amount of £684,000 relating to a reclaim of value added tax (VAT).

Conister Bank Limited (the Bank), as the Group VAT registered entity, has for some time considered the VAT recovery rate being obtained by the business was neither fair nor reasonable, specifically regarding the attribution of part of the residual input tax relating to the HP business not being considered as a taxable supply. Queries have been raised with the Isle of Man Government Customs & Excise Division (C&E), and several reviews of the mechanics of the recovery process were undertaken by the Company's professional advisors.

The decision of the first-tier Tax Tribunal released 18 August 2011 in respect of Volkswagen Financial Services (UK) Limited v HM Revenue & Customs (TC01401) ("VWFS Decision") added significant weight to the case put by the Bank and a request for a revised Partial Exemption Special Method was submitted in December 2011. The proposal put forward by the Bank is that the revised method would allocate 50% of costs in respect of HP transactions to a taxable supply and 50% to an exempt supply. In addition at this time a Voluntary Disclosure was made as a retrospective claim for input VAT under-claimed in the last 4 years, HM Revenue & Customs have appealed the decision.

Discussions regarding the retrospective claim are ongoing, however, there has been an acknowledgement that the old partial exemption special method was neither fair nor reasonable, and the revised Partial Exemption Special Method has been agreed to be not unreasonable but is unlikely to be agreed prior to the appeal being heard. C&E have also confirmed that they are happy for this method to have been applied in Quarter 4 2011, and to apply to future returns pending approval.

On the basis of the discussions and correspondence with C&E in addition to the VWFS Decision, the Directors believe that the VAT claimed retrospectively will be secured.

**22. Customer accounts**

	2011 £000	2010 £000
Retail customers: Term deposits	54,569	50,878
Corporate customers: Term deposits	1,341	1,867
	<b>55,910</b>	52,745

**Fiduciary deposits**

The Bank acts as agent bank to a number of customers, for balances totalling £18,982,000 (2010: £48,396,641). 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.

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### 23. Creditors and accrued charges

	Group		Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Creditors and accruals	698	672	93	209
Redundancy costs	–	102	–	–
VAT payable	81	135	–	–
Short-term employee benefits	76	69	–	–
	<b>855</b>	<b>978</b>	<b>93</b>	<b>209</b>
	<b>2011 £000</b>	<b>2010 £000</b>	<b>2011 £000</b>	<b>2010 £000</b>
<b>Deferred consideration</b>				
Edgewater Associates Limited	492	475	492	475
	<b>492</b>	<b>475</b>	<b>492</b>	<b>475</b>

#### Deferred consideration

The deferred consideration is payable to the previous shareholders of Edgewater Associates Limited between 2012 and 2013 on approval of the respective company's accounts for each of the financial years ending 31 December 2011 and 2012. The deferred element, payable on the approval of the respective accounts, is:

- 31 December 2011: £333,000 in cash;
- 31 December 2012: £159,000 in cash and £175,000 payable in Consideration Shares; and
- Total deferred cash and share consideration payable is £492,000 and £175,000 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.

In March 2012 it was agreed by all parties that the full amount of deferred consideration due in respect of the 31 December 2011 Financial Statements would be paid in cash and no Consideration Shares would be issued.

#### Incentive commission

It was also agreed that an incentive commission would 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.

No incentive commission has been paid to date, and based on current expectations no provision has been made in the accounts of the Group in respect of the incentive commission.

### 24. Loan notes

On 31 May 2011 MFG entered into a loan agreement with a related party company guaranteed by Burnbrae Limited for £0.5m. The loan was repayable within one year and bore interest at a rate of 3.5% per annum. On 21 December 2011 this loan was repaid and another loan agreement was entered into directly with Burnbrae Limited. This loan is repayable within five years and bears interest at 3.5% per annum.

On 3 March 2010 MFG entered into a convertible loan agreement with the Company and Group's Executive Chairman, 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, a Non-Executive Director of MFC) 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. The Directors consider that there is no equity element to these convertible loans.

## 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 of the Scheme.

The most recent full actuarial valuation 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.

<b>The actuarial assumptions used to calculate scheme liabilities under IAS19 are as follows:</b>	<b>2011</b>	2010	2009	2008	2007
	<b>%</b>	%	%	%	%
Rate of increase in salaries	<b>N/A</b>	3.70	3.80	2.80	3.40
Rate of increase in pension in payment:					
– service up to 5 April 1997	<b>–</b>	–	–	–	–
– service from 6 April 1997 to 13 September 2005	<b>2.90</b>	3.40	3.50	2.70	3.40
– service from 14 September 2005	<b>2.10</b>	2.20	2.30	2.00	2.40
Discount rate applied to scheme liabilities	<b>5.70</b>	5.70	5.70	6.70	5.80
Return on assets	<b>3.10</b>	5.20	5.95	6.60	7.90

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:

	<b>2011</b>	2010
	<b>£000</b>	£000
<b>Total underfunding in funded plans recognised as a liability</b>		
Fair value of plan assets	<b>1,192</b>	1,357
Present value of funded obligations	<b>(1,271)</b>	(1,417)
	<b>(79)</b>	(60)

<b>Plan assets consist of the following</b>	<b>2011</b>	2010
	<b>%</b>	%
Equity securities	<b>24</b>	24
Corporate bonds	<b>20</b>	25
Government bonds	<b>18</b>	37
Cash	<b>38</b>	7
Other	<b>–</b>	7
	<b>100</b>	100

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**25. Pension liability (continued)**

	2011 £000	2010 £000
<b>Movement in the liability for defined benefit obligations</b>		
Opening defined benefit obligations at 1 January	1,417	1,391
Benefits paid by the plan	(200)	(55)
Interest on obligations	75	78
Actuarial (gain)/loss	(21)	3
<b>Liability for defined benefit obligations at 31 December</b>	<b>1,271</b>	<b>1,417</b>

	2011 £000	2010 £000
<b>Movement in plan assets</b>		
Opening fair value of plan assets at 1 January	1,357	1,325
Expected return on assets	65	79
Contribution by employer	10	–
Actuarial (loss)/gain	(40)	8
Benefits paid	(200)	(55)
<b>Closing fair value of plan assets at 31 December</b>	<b>1,192</b>	<b>1,357</b>

	2011 £000	2010 £000
<b>Expense recognised in income statement</b>		
Interest on obligation	75	78
Expected return on plan assets	(65)	(79)
Total included in personnel costs	10	(1)
<b>Actual return on plan assets</b>	<b>(25)</b>	<b>(19)</b>

	2011 £000	2010 £000
<b>Income recognised in other comprehensive income and expense</b>		
Actuarial (loss)/gain on plan assets	(40)	8
Actuarial gain/(loss) on defined benefit obligations	21	(3)
	<b>(19)</b>	<b>5</b>

**26. Called up share capital**

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.

Additional shares were issued as part consideration in the acquisition of Edgewater Associates Limited.

<b>Authorised: Ordinary shares of no par value</b>	<b>Number</b>	
<b>At 31 December 2011</b>	<b>150,000,000</b>	
At 31 December 2010	150,000,000	
<hr/>		
<b>Issued and fully paid: Ordinary shares of no par value</b>	<b>Number</b>	<b>£000</b>
At 31 December 2010	88,186,853	18,258
Issued as part consideration for shares in Edgewater Associates Limited	1,383,399	175
<b>As at 31 December 2011</b>	<b>89,570,252</b>	<b>18,433</b>

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26. Called up share capital (continued)

Dates Exercisable	Executive Plan Options			Exercise Price	Number of ordinary shares
	Grant date	Performance Conditions	From To		
<b>On 9 June 2003</b>	Fully vested	9 June 2009	9 Dec 2013	34p	<b>2,092,500</b>
Balance at 31 December 2010					28,500
Lapsed					–
<b>Balance at 31 December 2011</b>					<b>28,500</b>
<b>On 28 April 2004</b>	Fully vested	28 Apr 2004	27 Apr 2014	29p	<b>350,000</b>
Balance at 31 December 2010					68,500
Lapsed					–
<b>Balance at 31 December 2011</b>					<b>68,500</b>
<b>On 25 April 2005</b>	Fully vested	25 Apr 2005	24 Apr 2015	32p	<b>205,500</b>
Balance at 31 December 2010					25,000
Lapsed					(12,500)
<b>Balance at 31 December 2011</b>					<b>12,500</b>
<b>On 1 November 2006</b>		1 Nov 2006	31 Oct 2011	54.1p	<b>1,375,000</b>
Balance at 31 December 2010					–
Lapsed					–
<b>Balance at 31 December 2011</b>					<b>–</b>
<b>On 6 July 2007</b>	(a)	6 July 2007	6 July 2017	65p	<b>625,000</b>
Balance at 31 December 2010					50,000
Lapsed					–
<b>Balance at 31 December 2011</b>					<b>50,000</b>
<b>On 1 February 2008</b>	(b)	1 Feb 2008	1 Feb 2018	70p	<b>1,275,000</b>
Balance at 31 December 2010					100,000
Lapsed					–
<b>Balance at 31 December 2011</b>					<b>100,000</b>
<b>On 25 June 2010</b>	(c)	25 June 2010	25 June 2020	10.95p	<b>1,410,447</b>
Balance at 31 December 2010					1,410,447
Lapsed					634,293
<b>Balance at 31 December 2011</b>					<b>776,154</b>



**26. Called up share capital (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 £1.75, 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

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### 26. Called up share capital (continued)

	6 July 2007 (Tranche 2)	6 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	2011 £000	2010 £000
Share options granted in:		
2003	–	–
2004	–	–
2005	–	–
2006	–	–
2007	–	1
2008	–	–
2010	4	5
	<b>4</b>	<b>6</b>

### 27. Analysis of changes in financing during the year

Analysis of changes in financing during the year	2011 £000	2010 £000
Balance at 1 January	19,968	22,496
Issue of ordinary shares by way of general offer	–	1,903
Issue of ordinary shares in lieu of bonus to Executive Directors	–	26
Issue of ordinary shares as part consideration for purchase of subsidiary undertaking	175	475
Transfer of share premium account to reserves	–	(6,142)
Repayment of subordinated liabilities (note 29)	–	(500)
Issue of loan notes	500	1,710
<b>Balance at 31 December</b>	<b>20,643</b>	<b>19,968</b>

The 2011 closing balance is represented by £18,433,000 share capital and £2,210,000 of loan notes.

The 2010 closing balance was represented by £18,258,000 share capital and £1,710,000 of loan notes.

**28. Regulator**

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

**29. Related party transactions****Staff loans**

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

**Convertible loans and loan notes**

Details of convertible loan arrangements and loan notes are given in note 24 to the financial statements.

**Subordinated loan (prior year)**

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 insofar as the Shareholders of the Company were concerned.

On 3 March 2010 this loan was repaid by the Bank.

**Key management personnel (including Executive Directors') compensation**

	2011 £000	2010 £000
Short-term employee benefits	336	395
Share-based payments	-	26
Total	<u>336</u>	<u>421</u>

The share based payments expense in prior year related to Shares in lieu of cash bonuses to two of the Executive Directors.

**30. Operating leases**

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

	2011		2010	
	Leasehold Property £000	Other £000	Leasehold Property £000	Other £000
Less than one year	257	14	245	15
Between one and five years	789	6	658	18
Over five years	673	-	-	-
	<u>1,719</u>	<u>20</u>	<u>903</u>	<u>33</u>

**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.





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