MANX FINANCIAL GROUP PLC

ANNUAL REPORT 2012

Welcome to Manx Financial Group PLC
Integrity through independence and service

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

MANX FINANCIAL GROUP PLC

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
- Edgewater Associates Limited
- Conister Card Services Limited

CONISTER BANK ISLE OF MAN

Conister Bank Limited (The Bank) is a licensed independent bank, regulated by the Financial Supervision Commission in the Isle of Man and a full member of the MasterCard® network and the Isle of Man's Association of Licensed Banks.

The Bank provides 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.

edgewater

Edgewater Associates Limited (EWA) is one of the pre-eminent independent financial advisers in the Isle of Man. 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 £156 million.

EWA specialises in the areas of wealth management, mortgage and general insurance, and retirement planning.

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CONISTER CARD SERVICES

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.

Financial Highlights

Manx Financial Group PLC:

- Net interest income £5.5 million (2011: £4.6 million)
- Net trading income £5.1 million (2011: £5.0 million)
- Operating income £5.3 million (2011: £5.5 million)
- Profit before specific items £0.4 million (2011: loss of £0.6 million)
- Loss for the year £0.3 million (2011: loss of £0.8 million)
- Headcount at 31 December 2012 was 54 people (2011: 68 people)

Conister Bank Limited:

- Profit before specific items for the year £0.5 million (2011: loss of £0.9 million)
- Net loans and advances £58.5 million (2011: £49.6 million)
- Deferred income £8.7 million (2011: £7.6 million)
- New advances £38.2 million (2011: £32.0 million)
- Deposits £63.7 million (2011: £55.9 million)

Edgewater Associates Limited:

- Profit before specific items for the year £0.024 million (2011: £0.010 million)
- Assets under management £140 million (2011: £130 million)

Conister Card Services Limited:

- Profit before specific items for the year £0.02 million (2011: £0.20 million)
- Operating costs reduced to £0.6 million (2011: 0.7 million)

Jim Mellon
Chairman

Dear Shareholders,

Each year since I became Executive Chairman, I have ended my reports to you with a commitment that the Group will return to profitability. Although the 2012 results do not fully reflect this - as inevitably this statement is largely retrospective - I believe that we have at last turned the corner. The start to the current year continues the promising performance for the second half of 2012: our cost reductions taken in 2012 are now filtering through to the Income Statement and our new business generation is improving each month. I look forward to being able to provide a positive update on this progress at the half year.

Manx Financial Group PLC

As I stated in the 2012 Interim Report, I expected an improvement in the second half of the year. I am pleased to record that my confidence was not misplaced. By the end of June 2012, our Profit before specific items was £92,000. At the end of the full year this figure had increased to £390,000 (2011: loss of £641,000) – a turnaround of just over £1 million in twelve months. Adding in the specific items, the Total comprehensive loss at the Interim stood at a loss of £567,000 with the full year figure being a loss of £435,000 (2011: loss of £799,000) – a positive improvement of £132,000.

Whilst these figures might not in themselves seem noteworthy, they disguise the benefits following the extensive restructuring undertaken in 2012 to deal with the considerable legacy overhead issues. By the end of 2012, our Personnel expenses had reduced by nearly 15% to £2.8 million (2011: £3.3 million) and our Other expenses had reduced by nearly 8% to £2.1 million (2011: £2.3 million). Overall, the costs of continuing operations had fallen by 16% to £5.3 million (2011: £6.3 million).

Non-recurrent Acquisition and redundancy costs, together with the provision for the Edgewater Associates variable final acquisition payment, alone amounted to £864,000 (2011: £537,000). Despite these one-off costs, the Group returned a Total comprehensive profit of £132,000 in the second half of the year (2011: a loss of £446,000).

Turning to the Statement of Financial Position, our Total assets have grown 16% to £78.0 million (2011: £67.2 million). Our Total liabilities have grown 19% to £70.8 million (2011: £59.5 million), and Total liabilities and equity by 16% to £78.0 million (2011: £67.2 million). The most significant figures within these totals are the growth in Loan and advances to £58.5 million (2011: £49.6 million) and the growth in Customer accounts to £63.7 million (2011: £55.9 million).

Strategically, we will continue our short-term focus on organic growth for the subsidiaries engaged in banking, prepaid cards and financial advisory services to consolidate our profitability and only consider acquisitions if the business rationale warrants. This focus will eliminate over £500,000 worth of aborted transaction fees incurred during 2012.

Conister Bank Limited

Our banking subsidiary continues to experience excellent growth with interest income up 17% to £7.8 million (2011: £6.7 million) driven by a 19% increase in new lending to £38.2 million (2011: £32.0 million). In turn, the Net loan book has grown by just over 18% to £58.5 million (2011: £49.6 million). This net loan book growth has in turn increased our deferred income by 14% to £8.7 million (2011: £7.6 million). The consistent application of our underwriting policies has allowed provision levels to reduce by £0.2 million to £4.3 million (2011: £4.5 million) whilst retaining prudent provision balances which represented 6% of our gross loan book (2011: 7%).

Good progress has also been achieved in matching deposits to loans and this key ratio improved by 3% to 92%. Also, the cost income ratio before specific items improved by 15% as the benefits of the rationalisation plan started to flow through the Income statement. The deposit base remains loyal and our brand awareness within the local deposit market is positive. Growth should not be restrained as our ability to attract deposits at competitive rates shows no sign of abating.

In line with best banking practice, I am pleased to report that our Tier 1 capital stood at nearly £10.0 million at the year-end which provided a Regulatory Risk Asset Ratio of nearly 17%. This figure is greatly in excess of the UK major banks and provides a solid foundation for our banking business. We believe that the provision of additional regulatory capital to fuel our expansion plans will not be a concern, and indeed our strategic plan for organic growth allows for the Bank to become self-sufficient in capital generation by the third quarter of 2013.

As I stated last year the Bank has for some time considered its VAT recovery rate as being neither fair nor reasonable and has raised this concern with the Isle of Man Government's

Customs & Excise Division. Some progress has been made with a £0.1 million benefit agreed so far. The balance will follow the decision of the Volkswagen Financial Services Limited case against HM Revenue & Customs, with the next appeal scheduled to be heard in Autumn 2013.

The continued absence of the traditional 'High Street' banks from both the UK consumer and Small & Medium Enterprises markets has created a void which our banking subsidiary is in an advantageous position to help fill. With Conister Bank's easy access to the Isle of Man retail deposit market, it will not be liquidity constrained and its rate structure should deliver steady returns for the foreseeable future. This, in conjunction with our growing UK distribution network, should ensure our route to market is stronger and more comprehensive than has been the case historically. In short, I believe that we have created a strong platform for growth within profitable market sectors.

Edgewater Associates Limited

Our Isle of Man regulated IFA business remains profitable and is well placed to benefit from the introduction on 1 January 2014 of the Island's equivalent to the UK's Retail Distribution Review whereby only those appropriately qualified can provide financial advice. Although the current economic climate is proving challenging to write new business, Edgewater Associates had the foresight to move to a renewal income model in 2010 which now represents over half of its turnover.

The strategy for growth is two pronged. Firstly we will continue to grow renewal income to cover the cost of the business's main asset, its people. This is expected to be achieved in the first half of 2013. Secondly, we will accelerate our new business income by increasing the ratio of sales to support staff within the current establishment. The latter will generate income greater than overheads and will create a more consistent return on our investment. Whilst this will have a positive impact in 2013, the full benefit of the re-structuring will not flow through the financial statements until 2014. We also continue to seek suitable acquisitions to increase the business' scale.

Conister Card Services Limited

We continue to act as a BIN sponsor whilst reviewing other ways to monetise our MasterCard® Principal Membership. Technology advances within the mobile and tablet arena are providing new, more convenient connectivity opportunities for both businesses and customers to send and receive payments. Choosing the correct partners within this market will be critical to the economic success of our entry into this opportunity. We are currently engaged in discussions with a mobile phone operator and a supermarket chain about operating a test to prove the technology and to review the market opportunity.

Outlook

In conclusion, I am pleased to say that all our businesses are on stream to achieve sustainable profitability. The Group's growth will be mainly driven by Conister Bank as I expect little change in the current economic environment for some considerable time. The benefit to us will be that during this period the 'High Street' banks will continue on their present course of balance sheet reconstruction which, inevitably, limits lending. This will, in turn, provide a time of opportunity for smaller banks such as our own to improve the quality of their counterparties and become the longer term funder of choice. We will continue to improve our system technology to ensure that our customers benefit from the competitive efficiency that an internet interface provides.

Thus this year's objective is to build upon a solid platform of sustainable profitability. With this achieved, we will be well positioned to move the Group to the next stage of its development which I anticipate will involve the consideration of strategic acquisitions to both broaden and strengthen our customer offering.

Finally, it remains for me to thank the executive and all our staff for their hard work and loyalty during this transformational year and to also thank you, our shareholders, for your continued support.

Jim Mellon

Executive Chairman

28 May 2013

Jim Mellon (56)‡

Executive Chairman

Jim Mellon holds directorships in a number of publicly quoted companies, many of which are in the financial services sector. He is a life tenant of the trust which owns Burnbrae Group Limited which, in turn, indirectly holds approximately 20% of Manx Financial Group PLC. He is the founder, principal shareholder and co-chairman of the Regent Pacific Group, quoted on the Hong Kong Stock Exchange, with total assets of approximately US$ 250 million. He is also founder, principal shareholder and a non-executive director of Charlemagne Capital, based on the Isle of Man and quoted on the London AIM market, which has approximately US$ 3.48 billion of assets under management.

Appointment

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

Denham Eke (61)‡

Chief Executive Officer

Denham Eke is the Managing Director of Burnbrae Group Limited, a private international asset management company. Mr Eke began his career in stockbroking with Sheppards & Chase before moving into corporate planning for Hogg Robinson plc, a major multinational 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. He is chairman of Webis Holdings PLC, chief executive officer of Speymill PLC, chief finance officer of West African Minerals Corporation Limited, chief finance officer of Copper Development Corporation, chief finance officer of Port Erin Biopharma Investments Limited, and a non-executive director of Billing Services Group Limited - all quoted on the London AIM market.

Appointment

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

Juan Kelly (42)‡

Executive Director

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

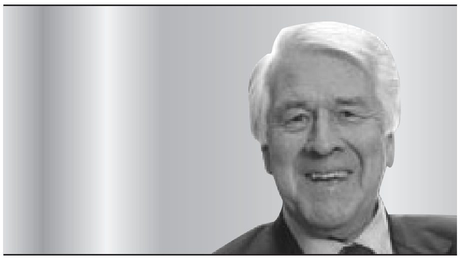
Douglas Grant (48)‡

Executive Director

Douglas Grant was appointed as the Group Finance Director 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.



Don McCrickard (76)‡

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 Banking 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.

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

Alan Clarke (62)‡†*
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 specialises 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 Novernber 2007. Chairman of the Audit, Risk and Compliance Committee and Chairman of the Remuneration Committee.

David Gibson (66)‡†*
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 forrnal qualifications as a banker. Prior to retiring from executive life for family reasons, he was group finance director of Portman Building Society for 9 years. He is currently deputy chairman of commercial property investment companies Chellbrook Properties plc and Mountstephen Investments Limited and a non-executive director for Rivington Street Holdings PLC, an Isle of Man financial media conglomerate.

Appointment

Appointed to the Board on 12 February 2009.

Advisers

Company Secretary
Lesley Crossley

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

Registered Agent
CW Corporate Services Limited
Bank Chambers,
15-19 Athol Street,
Douglas,
Isle of Man, IM1 1LB.

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

Legal Advisers
Kerman & Co LLP
200 Strand,
London, WC2R 1DJ.

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

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

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

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

Pension Fund Investment Manager
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 Advisor and Broker
Beaumont Cornish Limited
2nd Floor,
Bowman House,
29 Wilson Street,
London, EC2M 2SJ.

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

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

The Directors present their annual report and the audited financial statements for the year ended 31 December 2012.

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 and wealth management.

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 (2011: 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 29 April 2013 are:

	Number	% of issued capital
Jim Mellon	17,635,332	19.69
Arron Banks	16,124,825	18.00
Lynchwood Nominees Limited	7,485,412	8.36
Island Farms Limited	4,222,319	4.71
David Hathersich-Jones	4,154,291	4.64
Hargreaves Lansdown (Nominees) Limited	4,133,012	4.61

The Directors are not aware of any other individual holding of greater than 3% as at 29 April 2013.

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:

Arron Banks resigned on 19 July 2012, Oliver Hare on 11 September 2012 and Nick Sheard on 22 March 2013.

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

	Number 31/12/12	Number 31/12/11
Jim Mellon[1]	**17,635,332**	17,585,332
Douglas Grant	**680,821**	580,821
David Gibson[2]	**428,853**	178,853
Don McCrickard[3]	**66,666**	66,666
Alan Clarke	**52,149**	52,149
Juan Kelly	**27,860**	–

[1] 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 968,666 Ordinary Shares on trust for Jim Mellon. Jim Mellon holds 666,666 Ordinary Shares in his own name.

[2] Comprises 428,853 Ordinary Shares held by TD Direct Investing Nominees (Europe) Ltd on trust for David Gibson.

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

The number of share options held by the current Directors is as follows:

	Number 31/12/12	Number 31/12/11
Douglas Grant	**342,466**	342,466

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 2012 there were 54 members of staff (2011: 68), of whom 5 were part-time (2011: 10).

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, relations with shareholders, accountability and audit. 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 seven Directors. Three of these are Non-Executive Directors and four are Executive Directors, including the Chairman. 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.

All of the three Non-Executive Directors are considered independent. These are Alan Clarke, David Gibson and Don McCrickard.

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

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

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

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 current 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.

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
28 May 2013

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.

Directors' emoluments

	Remuneration/ Fees £	Performance Related Pay £	Pension £	**2012 Total £**	2011 Total £
Executive Chairman					
Jim Mellon	25,000	–	–	**25,000**	25,000
Executive					
Denham Eke	25,000	–	–	**25,000**	25,000
Juan Kelly[1]	135,740	–	13,700	**149,440**	42,944
Douglas Grant	128,740	–	12,500	**141,240**	140,417
Nick Sheard[2]	93,740	–	9,000	**102,740**	100,516
Simon Hull[3]	–	–	–	**–**	51,726
Non-Executive					
Alan Clarke	37,500	–	–	**37,500**	37,500
David Gibson	37,500	–	–	**37,500**	37,500
Don McCrickard	37,500	–	–	**37,500**	37,500
Arron Banks[4]	7,292	–	–	**7,292**	12,500
Oliver Hare[5]	18,750	–	–	**18,750**	23,782
Aggregate emoluments	546,762	–	35,200	**581,962**	534,385

[1] Juan Kelly was appointed on 19 September 2011.
[2] Nick Sheard resigned on 22 March 2013.
[3] Simon Hull resigned on 11 March 2011.
[4] Arron Banks resigned on 19 July 2012.
[5] Oliver Hare resigned on 11 September 2012.

Approval

This report was approved by the Board of Directors on 28 May 2013 and signed on its behalf by:

Alan Clarke
Chairman of the Remuneration Committee
28 May 2013

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 (IFRS) as adopted by the EU.

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 Group 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 IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

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

We have audited the financial statements of Manx Financial Group PLC for the year ended 31 December 2012 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) as adopted by the EU.

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 Auditors' 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 2012 and of the Group's loss for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the EU.

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).

The Bank's total exposure in relation to this matter is £589,000, comprising a debtor balance of £466,000 plus an additional £123,000 VAT reclaimed under the Partial Exemption Special Method in the period from Q4 2011 to Q3 2012.

Conister Bank Limited, as the Group VAT registered agent, has for some time considered the VAT recovery rate being obtained by the business to be 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 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 ("VWFS") 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 added significant weight to the case put forward by the Bank to C&E, including the request to C&E for a revised Partial Exemption Special Method as submitted in December 2011. The proposal put forward by the Bank was 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.

In November 2012, it was announced that the HMRC Upper Tribunal had overturned the First-Tier Tribunal in relation to the VWFS Decision. VWFS has subsequently been given leave to appeal and this is scheduled to be heard in October 2013 ("the VWFS Appeal").

On the basis of the discussions and correspondence which have taken place between the Bank and C&E, in addition to the VWFS Appeal, the Directors are confident that the total VAT claimed of £589,000 will be secured and accordingly a debtor balance of £466,000 has been included in the financial statements for the year ended 31 December 2012 and no provision has been made for the possible repayment of the £123,000 VAT reclaimed to date, which might become repayable depending on the ultimate outcome of the VWFS decision. Due to the inherent uncertainty associated with the outcome of the VWFS Appeal and its impact on negotiations with C&E, the amount of retrospective VAT recovered and the amount of provision in respect of VAT reclaimed to date in relation to this matter may differ materially from the amounts stated in the financial statements.

KPMG Audit LLC
Chartered Accountants

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

28 May 2013

For the year ended 31 December	Notes	2012 £000	2012 £000	2011 £000	2011 £000
Interest income	6	7,800		6,650	
Interest expense	11	(2,259)		(2,065)	
Net interest income			5,541		4,585
Fee and commission income		1,226		1,191	
Fee and commission expense		(612)		(322)	
Profit share on joint lending schemes	7	(1,032)		(417)	
Net fee and commission (expense)/income			(418)		452
Net trading income			5,123		5,037
Other operating income			212		418
Operating income			5,335		5,455
Personnel expenses		(2,831)		(3,314)	
Other expenses		(2,144)		(2,319)	
Provision for impairment of loan assets	8	(7)		(463)	
Depositors' Compensation Scheme	10	37		–	
			(4,945)		(6,096)
Profit/(loss) before specific items			390		(641)
Acquisition and restructuring costs	9	(864)		(537)	
VAT recoverable	21	71		684	
Realised gains on available-for-sale investments		28		41	
Unrealised (loss)/gain on financial assets carried at fair value	16	(128)		15	
Depreciation	19	(214)		(234)	
Impairment of goodwill		–		(111)	
			(1,107)		(142)
Loss before income tax recovery	11		(717)		(783)
Income tax recovery	12		380		–
Loss for the year			(337)		(783)
Other comprehensive income					
Available-for-sale gains taken to equity	17		–		3
Actuarial loss on defined benefit pension scheme	25		(98)		(19)
Total comprehensive loss for the period attributable to owners			(435)		(799)
Basic and diluted loss per share (pence)	13		(0.38)		(0.88)

The notes on pages 17 to 44 form part of these Financial Statements.

The Directors believe that all results derive from continuing activities.

		Group		Company	
As at 31 December	Notes	**2012 £000**	2011 £000	**2012 £000**	2011 £000
Assets					
Cash and cash equivalents	15	**1,918**	2,335	**–**	–
Financial assets at a fair value through profit or loss	16	**51**	189	**–**	–
Available-for-sale financial instruments	17	**12,484**	10,495	**–**	–
Loans and advances to customers	18	**58,495**	49,525	**–**	–
Commissions receivable		**312**	234	**–**	–
Property, plant and equipment	19	**742**	814	**–**	–
Investment in Group undertakings	20	**–**	–	**12,072**	12,067
Trade and other receivables	21	**1,252**	1,260	**98**	31
Deferred tax asset	12	**380**	–	**–**	–
Goodwill	20	**2,344**	2,344	**–**	–
Total assets		**77,978**	67,196	**12,170**	12,098
Liabilities					
Customer accounts	22	**63,731**	55,910	**–**	–
Creditors and accrued charges	23	**2,162**	855	**339**	93
Amounts owed to Group undertakings		**–**	–	**1,512**	2,962
Loan notes	24	**4,510**	2,210	**4,510**	2,210
Deferred consideration	23	**160**	492	**160**	492
Pension liability	25	**200**	79	**–**	–
Total liabilities		**70,763**	59,546	**6,521**	5,757
Equity					
Called up share capital	26	**18,433**	18,433	**18,433**	18,433
Profit and loss account		**(11,218)**	(10,783)	**(12,784)**	(12,092)
Total equity		**7,215**	7,650	**5,649**	6,341
Total liabilities and equity		**77,978**	67,196	**12,170**	12,098

The Financial Statements were approved by the Board of Directors on 28 May 2013 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 44 form part of these Financial Statements.

For the year ended 31 December	Notes	**2012 £000**	2011 £000
RECONCILIATION OF LOSS BEFORE TAXATION TO OPERATING CASH FLOWS			
Loss before tax on continuing activities		**(717)**	(783)
Unrealised loss/(gain) on financial assets carried at fair value		**128**	(15)
(Gain)/loss on disposal of property, plant and equipment		**(7)**	6
Depreciation charge	11,19	**214**	234
Realised gains on available-for-sale investments		**(28)**	(41)
Available-for-sale gains taken to equity		**–**	3
Actuarial loss on defined benefit pension scheme taken to equity	25	**(98)**	(19)
Pension liability	25	**121**	19
Share-based payment credit	26	**–**	4
Decrease/(increase) in trade and other receivables		**18**	(820)
Increase /(decrease) in trade and other payables		**1,307**	(123)
(Increase)/decrease in commission debtors		**(78)**	3
Impairment of goodwill		**–**	111
Net cash inflow/(outflow) from trading activities		**860**	(1,421)
Increase in loans and advances to customers		**(8,970)**	(1,058)
Increase in deposit accounts		**7,821**	3,165
Cash (outflow)/inflow from operating activities		**(289)**	686
CASH FLOW STATEMENT			
Cash flows from operating activities			
Cash (outflow)/inflow from operating activities		**(289)**	686
Taxation paid		**–**	–
Net cash (outflow)/inflow from operating activities		**(289)**	686
Cash (outflow)/inflow from investing activities			
Purchase of property, plant and equipment	19	**(186)**	(323)
Purchase of available-for-sale financial instruments	17	**(1,961)**	(3,162)
Sale of property, plant and equipment		**51**	29
Acquisition of subsidiaries net of cash acquired	20	**–**	(32)
Payment of deferred consideration		**(332)**	(158)
Net cash outflow from investing activities		**(2,428)**	(3,646)
Cash flows from financing activities			
Issue of loan notes	24	**2,300**	500
Net cash inflow from financing activities		**2,300**	500
Decrease in cash and cash equivalents		**(417)**	(2,460)
Included in cash flows are:			
Interest received - cash amounts		**8,003**	6,749
Interest paid - cash amounts		**(2,396)**	(2,306)

The notes on pages 17 to 44 form part of these Financial Statements.

Consolidated and Company Statement of Changes in Equity

For the year ended **Group**	**Share capital £000**	**Retained earnings £000**	**2012 £000**	2011 £000
Balance as at 1 January	18,433	(10,783)	**7,650**	8,620
Loss for the year	–	(337)	**(337)**	(783)
Other comprehensive expense	–	(98)	**(98)**	(16)
Transactions with owners:				
Shares to be issued (see note 23)	–	–	–	(175)
Share-based payment expense	–	–	–	4
Balance as at 31 December	18,433	(11,218)	**7,215**	7,650

For the year ended **Company**	**Share capital £000**	**Retained earnings £000**	**2012 £000**	2011 £000
Balance as at 1 January	18,433	(12,092)	**6,341**	7,444
Loss for the year	–	(692)	**(692)**	(932)
Transactions with owners:				
Shares to be issued (see note 23)	–	–	–	(175)
Share-based payment expense	–	–	–	4
Balance as at 31 December	18,433	(12,784)	**5,649**	6,341

The notes on pages 17 to 44 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 year ended 31 December 2012 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) as adopted by the EU 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 2011 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 and available for sale financial instruments 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 pounds sterling, which is the Group's functional currency. Except as indicated, financial information presented in pounds sterling has been rounded to the nearest thousand. All subsidiaries of the Group have pounds sterling as their functional currency.

(d) Use of estimates and judgements

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

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

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

3. Significant accounting policies

(a) Basis of consolidation of subsidiaries

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

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

3. **Significant accounting policies (continued)**

(b) Accounting for business combinations

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 statement of comprehensive income after taking into account provision for impairment losses (see note 3(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. Available-for-sale investments are carried at fair value.

Dividend income is recognised in the statement of comprehensive 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 statement of comprehensive income.

Investments in subsidiary undertakings

Investments in subsidiary undertakings in the parent company Statement of Financial Position are measured at cost less any provision for impairment.

(e) Impairment of financial assets

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

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

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

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

(f) Cash and cash equivalents

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

(g) Financial liabilities

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

(h) Employee benefits

Pension obligations

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

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

3. Significant accounting policies (continued)

(h) Employee benefits (continued)

Pension obligations (continued)

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

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 effective for the year and have not been applied in preparing these consolidated financial statements.

New/revised International Accounting Standards/International Financial Reporting Standards (IAS/IFRS)	
Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)	1 July 2012
Government Loans (Amendments to IFRS 1)	1 January 2013
Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	1 January 2013
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
IAS 19 Employee Benefits (amended 2011)	1 January 2013
IAS 27 Separate Financial Statements (2011)	
IAS 28 Investments in Associates and Joint Ventures (2011)	1 January 2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Annual Improvements to IFRS 2009-2011 Cycle – various standards	1 January 2013
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	1 January 2014
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	1 January 2014
IFRS 9 Financial Instruments	1 January 2015

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 4a(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 clairns 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 receives funds for its prepaid card activities. These funds are held in a fiduciary capacity for the sole purpose of making payments as and when card-holders utilise the credit on their cards, and are 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; and
- 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) delegate 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, litigation funding loans, unsecured personal loans, secured commercial loans, block discounting and stocking plan loans. It is also exposed to credit risk with regard to cash balances and trade and other receivables.

4. Risk and capital management (continued)

(a) Risk management (continued)

i) Credit risk (continued)

Management of credit risk

The Board of the Bank delegates 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; and
- 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:

Loans and advances to customers	2012 £000	2011 £000
Carrying amount	**58,495**	49,525
Individually impaired[1]		
Grade A	**–**	189
Grade B	**–**	29
Grade C	**5,423**	5,954
Gross value	**5,423**	6,172
Allowance for impairment	**(4,150)**	(4,305)
Carrying value	**1,273**	1,867
Collective allowance for impairment	**(163)**	(225)
Past due but not impaired		
Less than 1 month	**819**	1,996
1 month but less than 2 months	**467**	849
2 months but less than 3 months	**555**	207
3 months and over	**478**	334
Carrying value	**2,319**	3,386
Neither past due nor impaired	**55,066**	44,497

[1] 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.

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 and short dated UK Government Treasury Bills.

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 assets and liabilities 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 2012	**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	**1,762**	**2,164**	**3,017**	**5,081**	**20,818**	**22,765**	**11,889**	**–**	**67,496**
Other liabilities	**50**	**672**	**162**	**613**	**326**	**1,247**	**5,587**	**–**	**8,657**
Total liabilities	**1,812**	**2,836**	**3,179**	**5,694**	**21,144**	**24,012**	**17,476**	**–**	**76,153**

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	1,479	2,094	1,986	5,081	20,818	21,765	11,889	–	65,112
Other liabilities	861	16	41	396	129	673	2,803	–	4,919
Total liabilities	2,340	2,110	2,027	5,477	20,947	22,438	14,692	–	70,031

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 2012	Sight-8 days £000	> 8 days - 1 month £000	> 1 month - 3 months £000	> 3 months - 6 months £000	> 6 months - 1 year £000	> 1 year - 3 years £000	> 3 years - 5 years £000	> 5 years £000	Total £000
Assets									
Cash and cash equivalents	**1,918**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,918**
Available-for-sale financial instruments	**–**	**–**	**5,497**	**–**	**6,987**	**–**	**–**	**–**	**12,484**
Customer accounts receivable	**1,307**	**3,229**	**3,623**	**5,368**	**9,343**	**29,389**	**6,236**	**–**	**58,495**
Commission debtors	**–**	**152**	**128**	**24**	**8**	**–**	**–**	**–**	**312**
Other assets	**–**	**–**	**–**	**–**	**90**	**179**	**179**	**4,321**	**4,769**
Total assets	**3,225**	**3,381**	**9,248**	**5,392**	**16,428**	**29,568**	**6,415**	**4,321**	**77,978**
Liabilities									
Customer accounts	**1,762**	**2,161**	**3,004**	**5,023**	**20,375**	**21,230**	**10,176**	**–**	**63,731**
Other liabilities	**43**	**651**	**107**	**529**	**156**	**571**	**4,975**	**–**	**7,032**
Total liabilities	**1,805**	**2,812**	**3,111**	**5,552**	**20,531**	**21,801**	**15,151**	**–**	**70,763**

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
Assets									
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
Total assets	5,657	10,794	3,417	5,110	8,821	23,711	5,527	4,159	67,196
Liabilities									
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
Total liabilities	2,334	2,091	1,978	4,463	19,179	18,743	10,679	79	59,546

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 intemal 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 a 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. As at 31 December 2012 and 2011, the fair value of the financial instruments as presented in the interest risk table below are considered to be equal to their carrying amounts.

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, which was £51,000 at 31 December 2012 (2011: £189,000) 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 the Bank. 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 their earliest:

31 December 2012	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	Non-Interest Bearing £000	Total £000
Assets									
Cash and cash equivalents	1,918	–	–	–	–	–	–	–	1,918
Available-for-sale financial instruments	–	5,497	–	6,987	–	–	–	–	12,484
Customer accounts receivable	4,536	3,623	5,368	9,343	29,389	6,236	–	–	58,495
Commission debtors	–	–	–	–	–	–	–	312	312
Other assets	–	–	–	–	–	–	–	4,769	4,769
Total assets	6,454	9,120	5,368	16,330	29,389	6,236	–	5,081	77,978
Liabilities									
Customer accounts	3,923	3,004	5,023	20,375	21,230	10,176	–	–	63,731
Other liabilities	–	–	–	–	–	–	–	7,032	7,032
Total capital and reserves	–	–	–	–	–	–	–	7,215	7,215
Total liabilities and equity	3,923	3,004	5,023	20,375	21,230	10,176	–	14,247	77,978
Interest rate sensitivity gap	2,531	6,116	345	(4,045)	8,159	(3,940)	–	(9,166)	–
Cumulative	2,531	8,647	8,992	4,947	13,106	9,166	9,166	–	–

4. Risk and capital management (continued)

(a) Risk management (continued)

(iv) Market risk (continued)

Interest risk re-pricing table (continued)

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	Non-Interest Bearing £000	Total £000
Assets									
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	–	–	–	–	–	–	–	234	234
Other assets	–	–	–	–	–	–	–	4,607	4,607
Total assets	16,378	3,274	5,103	8,720	23,532	5,348	–	4,841	67,196
Liabilities									
Customer accounts	3,568	1,978	4,130	19,179	18,586	8,469	–	–	55,910
Other liabilities	–	–	–	–	–	–	–	3,636	3,636
Total capital and reserves	–	–	–	–	–	–	–	7,650	7,650
Total liabilities and equity	3,568	1,978	4,130	19,179	18,586	8,469	–	11,286	67,196
Interest rate sensitivity gap	12,810	1,296	973	(10,459)	4,946	(3,121)	–	(6,445)	–
Cumulative	12,810	14,106	15,079	4,620	9,566	6,445	6,445	–	–

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 (2011: 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 2012	**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**	**Non-Interest Bearing £000**	**Total £000**
Interest rate sensitivity gap	**2,531**	**6,116**	**345**	**(4,045)**	**8,159**	**(3,940)**	**–**	**(9,166)**	**–**
Weighting	**0.000**	**0.003**	**0.007**	**0.014**	**0.027**	**0.054**	**0.115**	**0.000**	**–**
£000	**–**	**18**	**2**	**(57)**	**220**	**(213)**	**–**	**–**	**(30)**

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	Non-Interest Bearing £000	Total £000
Interest rate sensitivity gap	12,810	1,296	973	(10,459)	4,946	(3,121)	–	(6,445)	–
Weighting	0.000	0.003	0.007	0.014	0.027	0.054	0.115	0.000	–
£000	–	4	7	(146)	134	(169)	–	–	(171)

4. Risk and capital management (continued)
(b) Capital Management

Regulatory capital

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

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

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.

For the year ended 31 December 2012	**Asset and Personal Finance £000**	**Litigation Finance £000**	**Conister Card Services £000**	**Wealth Management £000**	**Investing Activities £000**	**Total £000**
Net interest income	**5,782**	**–**	**–**	**–**	**(241)**	**5,541**
Operating income	**4,255**	**–**	**112**	**1,205**	**(237)**	**5,335**
Profit before specific items	**610**	**141**	**16**	**24**	**(401)**	**390**
Capital expenditure	**184**	**–**	**–**	**2**	**–**	**186**
Total assets	**76,367**	**899**	**134**	**578**	**–**	**77,978**

For the year ended 31 December 2011	Asset and Personal Finance £000	Litigation Finance £000	Conister Card Services £000	Wealth Management £000	Investing Activities £000	Total £000
Net interest income	4,242	343	–	–	–	4,585
Operating income	3,575	343	369	1,168	–	5,455
Loss before specific items	(1,174)	343	180	10	–	(641)
Capital expenditure	307	–	–	16	–	323
Total assets	63,526	1,137	144	2,389	–	67,196

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. Profit share on joint lending schemes

	2012 £000	2011 £000
Scheme one	**1,032**	417
	1,032	417

On 3 February 2010, a joint lending scheme was entered into by the Bank. The development of this relationship has led to interest income on loan advances funded by the Bank, being divided up between the parties in a profit sharing ratio. As at 31 December 2012 advances had grown by £8.7 million to £18.9 million. The amount by which the other party has received in profits shared is analysed above.

8. Allowance for impairment

The charge in respect of specific allowances for impairment comprises:

	2012 £000	2011 £000
Specific impairment allowances made	**465**	781
Reversal of allowances previously made	**(396)**	(62)
Total charge for specific provision for impairment	**69**	719

The credit in respect of collective allowances for impairment comprises:

	2012 £000	2011 £000
Collective impairment allowances made	**75**	129
Release of allowances previously made	**(137)**	(385)
Total credit for collective allowances for impairment	**(62)**	(256)
Total charge for allowances for impairment	**7**	463

9. Acquisition and restructuring costs

Restructuring costs in the current and prior year relate to a re-organisation and rationalisation across the Group.

	Notes	2012 £000	2011 £000
Acquisition costs			
Legal, professional and other acquisition costs	23	**493**	–
Re-organisation of UK and IOM operations			
Salary and redundancy costs		**371**	537
		864	537

10. Depositors' Compensation Scheme

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. Three payments of £73,880 were made in to the scheme. In 2011, a payment was made which was expected to be repaid, therefore no charge was made to prior year's Consolidated Statement of Comprehensive Income. In the current year, a partial repayment from the Financial Supervision Commission of £133,506 from the scheme released a £36,940 credit to the Consolidated Statement of Comprehensive Income. Further repayments from the scheme are anticipated.

11. Loss before taxation

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

		2012 £000	2011 £000
Interest expense payable to depositors		**2,018**	1,901
Interest expense payable on loan notes		**241**	164
Depreciation		**214**	234
(Profit)/Loss on sale of fixed assets		**(7)**	6
Share option expense		**–**	4
Directors' remuneration		**362**	307
Directors' fees		**159**	199
Directors' pensions		**35**	28
Directors' bonuses		**–**	–
Auditors' remuneration	as Auditors current year	**72**	79
	as Auditors under-accrual for prior year	**–**	4
	non-audit services	**133**	131
Pension cost defined contribution scheme		**35**	122
Operating lease rentals for property		**300**	322

12. Income tax expense

The main rate of income tax in the Isle of Man is 0% (2011: 0%), however the profits of the Group's Manx banking activities are taxed at 10% (2011: 10%). The profits of the Group's subsidiaries that are subject to UK corporation tax are taxed at a rate of 26.5% (2011: 26.5%).

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 value of tax losses carried forward is £380,000 (2011: £nil) which has been recognised as a deferred tax asset in the current year.

13. Loss per share

	2012 £000	2011 £000
Loss for the year	**(337)**	(783)
	Number	Number
Weighted average number of ordinary shares in issue	**89,570,252**	89,213,979
Basic and diluted loss per share	**(0.38)p**	(0.88)p

The basic loss per share calculation is based upon the 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 2011 there is no dilution from potential ordinary shares.

14. Company loss

The loss on ordinary activities after taxation of the Company is £692,000 (2011: £932,000).

15. Cash and cash equivalents

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Cash at bank and in hand	**1,872**	1,789	**–**	–
Short-term deposits	**46**	546	**–**	–
	1,918	2,335	**–**	–

Cash at bank includes an amount of £18,809 (2011: £8,949) representing cheques issued in the course of transmission. The remaining maturity of short-term deposits is as follows:

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Less than 8 days	**46**	546	**–**	–
	46	546	**–**	–

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 and is classified as a level 1 investment in the IFRS7 fair value hierarchy. The cost of the shares was £471,000. The unrealised difference between cost and market value has been taken to the income statement.

17. Available-for-sale financial instruments

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
UK Government Treasury Bills	**12,484**	10,495	**–**	–
	12,484	10,495	**–**	–

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	2012 Gross Amount £000	2012 Impairment Allowance £000	2012 Carrying Value £000	2011 Gross Amount £000	2011 Impairment Allowance £000	2011 Carrying Value £000
HP balances	**37,955**	**(883)**	**37,072**	33,810	(624)	33,186
Finance lease balances	**6,543**	**(696)**	**5,847**	5,640	(628)	5,012
Litigation funding	**2,526**	**(1,627)**	**899**	2,972	(1,835)	1,137
Unsecured personal loans	**3,913**	**(362)**	**3,551**	3,399	(434)	2,965
Vehicle stocking plans	**1,404**	**–**	**1,404**	1,397	–	1,397
Block discounting	**4,601**	**–**	**4,601**	3,724	(9)	3,715
Secured commercial loans	**5,866**	**(745)**	**5,121**	3,113	(1,000)	2,113
	62,808	**(4,313)**	**58,495**	54,055	(4,530)	49,525

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.

Specific allowance for impairment	2012 £000	2011 £000
Balance at 1 January	**4,305**	4,173
Specific allowance for impairment made	**69**	781
Write-offs	**(224)**	(649)
Balance at 31 December	**4,150**	4,305

Collective allowance for impairment	2012 £000	2011 £000
Balance at 1 January	**225**	490
Collective allowance for impairment made	**–**	129
Release of allowances previously made	**(62)**	(394)
Balance at 31 December	**163**	225
Total allowances for impairment	**4,313**	4,530

Advances on preferential terms are available to all Directors, management and staff. As at 31 December 2012 £133,740 (2011: £166,710) 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.

As detailed below, at the end of the current financial year one loan exposure exceeded 10% of the capital base of the Group (2011: three loan exposures).

Exposure	Outstanding balance 2012 £000	Outstanding balance 2011 £000	Facility limit (if applicable) £000
Finance lease	**–**	1,037	N/a
Secured commercial loan	**4,176**	1,849	5,000
Block discounting facility	**–**	767	1,000

18. Loans and advances to customers (continued)

HP and finance lease receivables

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

Gross investment in HP and finance lease receivables	2012 £000	2011 £000
Less than one year	**21,841**	19,295
Between one and five years	**30,520**	26,962
	52,361	46,257

The investment in HP and finance lease receivables net of unearned income comprises	2012 £000	2011 £000
Less than one year	**18,454**	16,049
Between one and five years	**26,044**	23,401
Net investment in HP and finance lease receivables	**44,498**	39,450

19. Property, plant and equipment

Group	Leasehold Improvements £000	IT Equipment £000	Furniture & Equipment £000	Motor Vehicles £000	Total £000
Cost					
As at 1 January 2012	**170**	**786**	**582**	**184**	**1,722**
Additions	**10**	**143**	**33**	**–**	**186**
Disposals	**–**	**–**	**–**	**(100)**	**(100)**
As at 31 December 2012	**180**	**929**	**615**	**84**	**1,808**
Accumulated depreciation					
As at 1 January 2012	**(1)**	**(360)**	**(436)**	**(111)**	**(908)**
Charge for year	**(6)**	**(161)**	**(42)**	**(5)**	**(214)**
Disposals	**–**	**6**	**–**	**50**	**56**
As at 31 December 2012	**(7)**	**(515)**	**(478)**	**(66)**	**(1,066)**
Carrying value at 31 December 2012	**173**	**414**	**137**	**18**	**742**
Carrying value at 31 December 2011	169	426	146	73	814

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 2012 % Holding	Date of incorporation	Total 2012 £	Total 2011 £
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	**2,005,000**	2,000,000
				12,072,001	12,067,001

Goodwill

Goodwill	Group 2012 £000	Group 2011 £000
Edgewater Associates Limited (EWA)	**1,849**	1,849
ECF Asset Finance PLC (ECF)	**454**	454
Three Spires Insurance Services Limited (Three Spires)	**41**	41
	2,344	2,344

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 cash flow projections, extrapolated to 10 years using a 5% annual increment, and then discounted using a 12% discount factor (2011: discount factor 10%). The sensitivity of the analysis was tested using additional discount factors of 15% and 20% on 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 12% discount factor (2011: discount factor 10%). The sensitivity of the analysis was tested using additional discount factors of 15% and 20% on varying sales volumes.

On the basis of the above reviews no impairment to goodwill has been made in the current year.

The goodwill generated on the purchase of Three Spires has been reviewed at the current year end and is considered adequate given its income streams referred to EWA.

21. Trade and other receivables

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Trade debtors	**53**	114	**–**	–
Prepayments and other debtors	**733**	462	**30**	20
VAT recoverable	**466**	684	**68**	11
	1,252	1,260	**98**	31

Included in trade and other receivables is an amount of £466,000 (2011: £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 was 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.

In November 2012, it was announced that the HMRC Upper Tribunal had overturned the First-Tier Tribunal in relation to the VWFS Decision. VWFS has subsequently been given leave to appeal and this is scheduled to be heard in October 2013.

The Bank's total exposure in relation to this matter is £589,000, comprising the debtor balance referred to above plus an additional £123,000 VAT reclaimed under the Partial Exemption Special Method, in the period from Q4 2011 to Q3 2012.

On the basis of the discussions and correspondence which have taken place between the Bank and C&E, in addition to the VWFS appeal, the Directors are confident that the VAT claimed referred to above will be secured.

22. Customer accounts

	2012	2011
	£000	£000
Retail customers: Term deposits	**61,647**	54,569
Corporate customers: Term deposits	**2,084**	1,341
	63,731	55,910

Fiduciary deposits

The Bank acts as agent bank to a number of customers, for balances totalling £19.9 million (2011: £19.0 million). The Bank invests these customer assets with third party banks on their behalf and in return for this service receives a fee. These balances are not included within the statement of financial position.

23. Creditors and accrued charges

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Creditors and accruals	**2,153**	698	**339**	93
VAT payable	**–**	81	**–**	–
Short-term employee benefits	**9**	76	**–**	–
	2,162	855	**339**	93

Deferred consideration	**2012 £000**	2011 £000	**2012 £000**	2011 £000
Edgewater Associates Limited	**160**	492	**160**	492
	160	492	**160**	492

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 2012: £160,000 in cash and £175,000 payable in consideration shares; and
- A top up payment, payable in cash to reimburse the shortfall in consideration shares previously issued.

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 Associates Limited'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

		Group		Company	
		2012	2011	**2012**	2011
	Notes	**£000**	£000	**£000**	£000
Related parties					
J Mellon	**JM**	**1,750**	1,750	**1,750**	1,750
Burnbrae Limited	**BL**	**1,200**	–	**1,200**	–
Southern Rock Insurance Company Limited	**SR**	**500**	–	**500**	–
Copper Development Corporation	**CDC**	**500**	–	**500**	–
Rock Holdings Limited	**RH**	**460**	460	**460**	460
		4,410	2,210	**4,410**	2,210
Unrelated parties	**UP**	**100**	–	**100**	–
		4,510	2,210	**4,510**	2,210

24. Loan notes (continued)

JM - Two loans consisting of £500,000, maturing on 31 July 2017 with interest payable of 7% p.a. and £1,250,000 maturing on 26 February 2015 paying interest of 9% p.a. Both loans are convertible at the rate of 4 pence and 9 pence respectively. The £500,000 loan is also entitled to 8.3 million warrants at an exercise price of 6 pence.

BL - One loan consisting of £1,200,000, maturing on 31 July 2017 with interest payable of 7% p.a. Jim Mellon is the beneficial owner of **BL** and Denham Eke is also a director. The loan is convertible at a rate of 4 pence and is entitled to 20 million warrants at an exercise price of 6 pence.

SR - One loan consisting of £500,000, maturing on 9 October 2017, paying interest of 7% p.a. Arron Banks, a significant shareholder and previous Non-Executive Director holds a 100% stake in **SR.** The loan is convertible at the rate of 4 pence, with an entitlement to 8.3 million warrants at an exercise price of 6 pence. See note 32 for details of converting this loan post year end.

CDC - Two loans consisting of £350,000, maturing on 7 September 2017 with interest payable of 5% p.a. and £150,000 maturing on 4 October 2017 paying interest of 5% p.a. Denham Eke is a director of **CDC**.

RH - One loan consisting of £460,000, maturing on 26 February 2015 with interest payable of 9% p.a. The loan is convertable at the rate of 9 pence. **RH** is linked to Arron Banks. See note 32 for details on assigning this loan to **SR** post year end.

UP - One loan consisting of £100,000, maturing on 16 November 2017 with interest payable of 5% p.a.

With respect to the convertable loans, the interest rate applied was deemed by the Directors to be equivalent to the market rate with no conversion option hence no equity component has been recognised with respect to any of these 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 2012.

The actuarial assumptions used to calculate Scheme liabilities under IAS19 are as follows	**2012 %**	2011 %	2010 %	2009 %	2008 %
Rate of increase in salaries	**N/A**	N/A	3.70	3.80	2.80
Rate of increase in pension in payment:					
– service up to 5 April 1997	**–**	–	–	–	–
– service from 6 April 1997 to 13 September 2005	**2.30**	2.90	3.40	3.50	2.70
– service from 14 September 2005	**1.80**	2.10	2.20	2.30	2.00
Discount rate applied to scheme liabilities	**4.90**	5.70	5.70	5.70	6.70
Return on assets	**2.90**	3.10	5.20	5.95	6.60

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

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

Total underfunding in funded plans recognised as a liability	**2012 £000**	2011 £000
Fair value of plan assets	**1,227**	1,192
Present value of funded obligations	**(1,427)**	(1,271)
	(200)	(79)

25. Pension liability (continued)

Plan assets consist of the following	2012 %	2011 %
Equity securities	**33**	24
Corporate bonds	**39**	20
Government bonds	**22**	18
Cash	**6**	38
	100	100

Movement in the liability for defined benefit obligations	2012 £000	2011 £000
Opening defined benefit obligations at 1 January	**1,271**	1,417
Benefits paid by the plan	**(57)**	(200)
Interest on obligations	**72**	75
Actuarial loss/(gain)	**141**	(21)
Liability for defined benefit obligations at 31 December	**1,427**	1,271

Movement in plan assets	2012 £000	2011 £000
Opening fair value of plan assets at 1 January	**1,192**	1,357
Expected return on assets	**39**	65
Contribution by employer	**10**	10
Acturial gain/(loss)	**43**	(40)
Benefits paid	**(57)**	(200)
Closing fair value of plan assets at 31 December	**1,227**	1,192

Expense recognised in income statement	2012 £000	2011 £000
Interest on obligation	**72**	75
Expected return on plan assets	**(37)**	(65)
Total included in personnel costs	**35**	10
Actual return on plan assets	**(93)**	(25)

Income recognised in other comprehensive income and expense	2012 £000	2011 £000
Acturial gain/(loss) on plan assets	**43**	(40)
Acturial (loss)/gain on defined benefit obligations	**(141)**	21
	(98)	(19)

26. Called up share capital

Authorised: Ordinary shares of no par value	Number
At 31 December 2011 & 2012	150,000,000

Issued and fully paid: Ordinary shares of no par value	Number	£000
As at 31 December 2011 & 2012	89,570,252	18,433

The number of warrants in issue at 31 December 2012 is 36.6 million (2011: nil) (see note 24 for further details). In addition there are a number of convertible loans (see note 24 for futher details).

Share options

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.

26. Called up share capital (continued)

Dates Exercisable	Executive Plan Options				
Grant date	Perfomance Conditions	From	To	Exercise Price	Number of ordinary shares
On 9 June 2003	Fully vested	9 June 2009	9 Dec 2013	34p	**2,092,500**
Balance at 31 December 2011					28,500
Lapsed					–
Balance at 31 December 2012					**28,500**
On 28 April 2004	Fully vested	28 Apr 2004	27 Apr 2014	29p	**350,000**
Balance at 31 December 2011					68,500
Lapsed					–
Balance at 31 December 2012					**68,500**
On 25 April 2005	Fully vested	25 Apr 2005	24 Apr 2015	32p	**205,500**
Balance at 31 December 2011					12,500
Lapsed					–
Balance at 31 December 2012					**12,500**
On 1 November 2006		1 Nov 2006	31 Oct 2011	54.1p	**1,375,000**
Balance at 31 December 2011					–
Lapsed					–
Balance at 31 December 2012					**–**
On 6 July 2007	Fully vested (a)	6 July 2007	6 July 2017	65p	**625,000**
Balance at 31 December 2011					50,000
Lapsed					–
Balance at 31 December 2012					**50,000**
On 1 February 2008	Fully vested (b)	1 Feb 2008	1 Feb 2018	70p	**1,275,000**
Balance at 31 December 2011					100,000
Lapsed					–
Balance at 31 December 2012					**100,000**
On 25 June 2010	(c)	25 June 2010	25 June 2020	10.95p	**1,410,447**
Balance at 31 December 2011					776,154
Lapsed					–
Balance at 31 December 2012					**776,154**

26. Called up share capital (continued)

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

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

*modified on 25 April 2008

	6 July 2007 (Tranche 2)	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	2012 £000	2011 £000
Share options granted in:		
2003	–	–
2004	–	–
2005	–	–
2006	–	–
2007	–	–
2008	–	–
2010	–	4
	–	4

27. Analysis of changes in financing during the year

Analysis of changes in financing during the year	2012 £000	2011 £000
Balance at 1 January	**20,643**	19,968
Issue of ordinary shares as part consideration for purchase of subsidiary undertaking	**–**	175
Issue of loan notes	**2,300**	500
Balance at 31 December	**22,943**	20,643

The 2012 closing balance is represented by £18,433,000 (2011: £18,433,000) share capital and £4,510,000 (2011: £2,210,000) 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.

Edgewater Subordinated Loan

On 14 May 2012, the Company made a subordinated loan to Edgewater Associates Limited for £128,000. This is an unsecured loan for 5 years and interest is charged at 7% per annum.

Convertible loans and loan notes

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

Key management personnel (including Executive Directors') compensation

	2012 £000	2011 £000
Short-term employee benefits	**397**	336
Total	**397**	336

30. Operating leases

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

	2012		2011	
	Leasehold Property £000	Other £000	Leasehold Property £000	Other £000
Less than one year	**297**	**6**	257	14
Between one and five years	**825**	**–**	789	6
Over five years	**1,078**	**–**	673	–
	2,200	**6**	1,719	20

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.

32. Post balance sheet events

On 24 April 2013, Rock Holdings Limited assigned £460,000 loan note to Southern Rock Insurance Company Limited. Southern Rock Insurance Company has also sent a conversion notice in respect of the £500,000 loan note and these will be converted into equity at the rate of 4 pence per share on 31 May 2013.

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