



MANX FINANCIAL
GROUP PLC

ANNUAL REPORT 2013

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 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 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 £180 million.

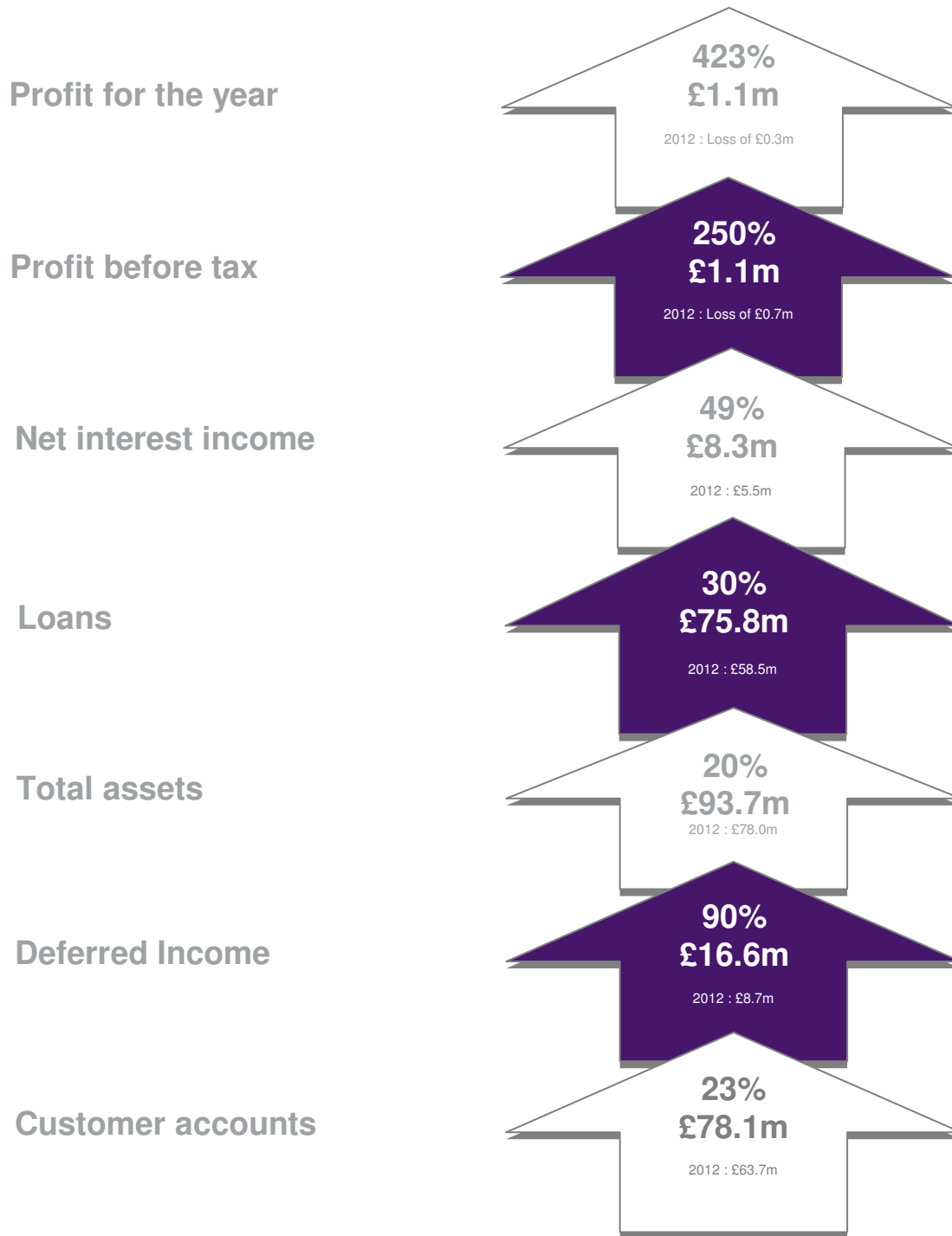
EWA specialises in the areas of wealth management, mortgage and general insurance, and retirement planning.

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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.



Manx Financial Group PLC

Chairman's Statement

02



Jim Mellon
Chairman

Dear Shareholders,

I am extremely pleased to report that, for the first time since being appointed Executive Chairman, the Group has returned to net profitability, fulfilling my previous predictions by recording a full year figure of nearly £1.1 million. This encouraging result reinforces the strong performance recorded at the Interim stage. I believe that we have now turned the corner to ensure that this year's performance is not just a one-off, but sustainable, providing a stable platform for enhanced future profitability. The 2013 year showed not only a consistent gain in income, but also allowed the full effect of the savings from our 2012 re-structuring programme to filter to the bottom line. Thus we have become a far more efficient business. This is reflected in our operating cost to income ratio which has improved by 26 percentage points to 63%. This all bodes well for the future and I am confident that 2014 will show further strong growth.

Our share price opened the 2013 year at 6 pence. This reflected a market capitalisation of approximately £6 million, and a discount to our net asset value of 26%. At the time of writing this statement, our share price is trading in the 18 – 19 pence range and our market capitalisation has now increased to approximately £19 million: a premium to our year-end net asset value of 121%. This represents an effective rate of growth in our market capitalisation, since January 2013, of 350%, which I am sure all shareholders will welcome, and provides the Group with more flexible options when considering future acquisitions.

Manx Financial Group PLC

We have now simplified the face of the Group accounts by removing the Specific Items section. Thus the profit before income tax recovery was £1.07 million (2012: loss of £0.72 million): a turnaround of £1.79 million. The net profit for the year was thus £1.09 million (2012: loss of £0.34 million): an improvement of £1.43 million. The basic earnings per share were 1.12 pence (2012: negative 0.38 pence).

Turning to the Statement of Financial Position, our total assets have grown by 20.2% to £93.72 million (2012: £77.98 million). Our total liabilities have grown by 20.4% to £85.19 million (2012: £70.76 million), and the total liabilities plus equity by 20.2% to £93.72 million (2012: £77.98 million). I am pleased to note the growth in our loans and advances to customers balance to £75.82 (2012: £58.50 million): an increase of 29.6%. This is supported by a rise of 22.6% in our customer accounts balance to £78.12 million (2012: £63.73 million).

Conister Bank Limited

The Bank continues to grow with interest income increasing by 37.8% to £10.75 million (2012: £7.80 million), driven by a 44.1% increase in new lending to £54.96 million (2012: £38.15 million). In turn the net loan book grew by 29.4% to £75.65 million (2012: £58.48 million). This gain has increased our deferred income to be recognised in future years by 89.9% to £16.56 million (2012: £8.72 million): a significant achievement.

Further progress has been made in matching loans to deposits, as any over funding results in a negative impact on the income statement. The loan to deposit ratio improved by 5 percentage points to 97.1% and our goal is to achieve 100% by 2015. We believe that our market penetration of the available Isle of Man deposit market is no more than 1% so future growth should not be limited by any lack of available depositor funding.

This growth has been achieved without compromising credit quality. This is evidenced by the decrease in impaired loans, both in absolute terms, having improved by £1.11 million to £4.31 million (2012: £5.42 million) and as a percentage of net loans, 5.7% (2012: 9.3%). Despite this improved arrears performance, the Bank has taken a conservative view by further increasing the provisions buffer to cushion future years' profit from failures in prior years' lending.

During the year, the Bank substantially reduced the provision against the litigation funding debtor, arising from a business stream that was discontinued in 2007, following certain settlements and expects to have any remaining position fully cleared by the next Interim report.

As reported in my previous two annual statements, the Bank considers its VAT recovery rate as being neither fair nor reasonable and has raised this concern with the Isle of Man Government's Custom & Excise Division. Customs & Excise confirmed that their decision would follow the outcome of the Volkswagen Financial Services Limited case against HM Revenue & Customs which had an appeal scheduled for autumn 2013. This hearing was adjourned until the European Court rules on a case relating to a similar point of law which means no decision is expected in relation to our VAT debtor until 2015.

The transitional period for the introduction of Basel III is currently scheduled for 2015 with its full adoption on 1 January 2019. Whilst this is still some time off, it is important we engage in discussions with our Regulator on the impact of its adoption and measure ourselves against its current methodology. Basel III revises and tightens the definition of regulatory capital with a minimum total capital plus conservation buffer requirement of 10.0%. The Bank's equivalent ratio is currently 13.2%, and we therefore believe that we should be able to increase the deployment of non-reserve capital.

Investment in our IT infrastructure has continued apace and in 2014 we will launch both online lending and deposit management systems which should greatly improve our existing customers' experience and introduce our products to a wider market. The innovative use of IT will allow the Bank to compete with high street majors by delivering both lending and deposit solutions to customers in the most efficient manner.

We continue to manage the balance sheet conservatively and indeed we are the only bank of which I am aware with a positively matched loan book.

We do not rely on behavioural adjustments to create a matched position nor do we rely on the vagaries of the UK wholesale market for funds. This conservatism comes at some cost to the income statement but it is a cost that I believe protects future earnings and positions our Bank well for the imminent changes to UK and Isle of Man legislation driven by both the Vickers report and the Basel committee.

We support the recommendations of the Vickers report and look forward to their implementation as a more stable and transparent banking sector will be created, providing additional opportunities for us to grow. With our high regulatory capital base, we are already in a positive position for the adoption of the Basel III accord.

Edgewater Associates Limited

As reported in the Interims, our Isle of Man based wealth management and general insurance subsidiary has made great strides in improving its financial performance. The company recorded a full year profit of £0.28 million (2012: £0.05 million) and further cost savings will flow through the financial statements in 2014. The final financial liability relating to the company's acquisition was paid in the year with no dilution to the Group's shareholders and at no cost to this year's income statement.

Our financial targets for this company are twofold. Firstly, to grow the renewal income element of turnover, currently standing at 45.9%, to 75.0% of turnover within four years. By focusing on renewal income, we will both increase earnings and reduce earnings volatility. To do so will require investment in both our people and the systems they use. Secondly, but interlinked, we will increase market share in the provision of IFA and general insurance services to businesses, potentially by acquisition, this will be building on the successes we made in this market sector this year.

I have previously explained that the Isle of Man has adopted the Retail Distribution Review ("RDR") and the company is fully RDR compliant. Edgewater is well positioned to act as a consolidator in the industry if any potential target is of sufficient quality.

Conister Card Services Limited

We continue to monitor the development of this industry and whilst various opportunities have been reviewed their long term profitability and hence their return on equity have been too subjective for us to accept. That said, we will continue with our Isle of Man based project which if successful could be rolled out to the UK.

Outlook

The Isle of Man economy remains stable despite pressures and UK economy now appears to be moving into a more buoyant phase. As sentiment recovers, I expect this to translate into a steady improvement in the economic environment. Competition will inevitably increase slightly as more liquidity returns to the market but as the high street banks still have considerable balance sheet pruning to complete before they will be Basel III compliant, it will still be some time before they can start lending in earnest.

It is against this backdrop of unsatisfied demand that I believe our own prudent balance sheet management will enable us to increase our income streams in a controlled and profitable manner. To supplement this growth, we intend to develop a commercially funded UK asset backed loan book which will act both as a parallel vehicle for additional profit and as an interest hedge for the Group. We will continue with our success in diversifying our lending streams to ensure that we minimise a concentration risk in any one class or market.

As always, we continue to seek suitable potential acquisitions that are both priced fairly and will add profitability.

Thus the outlook for the Group is very promising with the 2013 second half profit of £0.81 million following the £0.26 million reported at the Interim stage. I would expect this trend of increasing profits to continue in the year to come.

Finally I would like to put on record my thanks to staff and shareholders alike for their continued support.

Jim Mellon
Executive Chairman
24 February 2014

Executive Directors



Jim Mellon (57) ‡
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. He is also founder, principal shareholder and non-executive director of Charlemagne Capital, based on the Isle of Man and quoted on the London AIM market.

Appointment

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



Denham Eke (62) ‡
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 (43) ‡
Executive Director

Juan Kelly started his career 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. He is Managing Director of Conister Bank Limited.



Douglas Grant (49) ‡
Group Finance Director

Douglas Grant 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 financial 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.

Non-Executive Directors



Don McCrickard (77) ‡
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. He is the Chairman of Conister Bank Limited.

*Member of the Audit, Risk and Compliance Committee

†Member of the Remuneration Committee

‡Member of the Nominations Committee

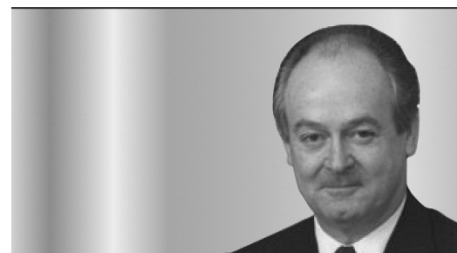


Alan Clarke (63) ††*
Non-Executive Director

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 November 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 formal qualifications as a banker. Prior to retiring from executive life for family reasons, he was group finance director of Portman Building Society for 9 years. He is currently deputy chairman of commercial property investment companies Chellbrook Properties plc and Mountstephen Investments Limited.

Appointment

Appointed to the Board on 12 February 2009.

Advisers

Company Secretary

Lesley Crossley

Registered Office

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Victoria Street
Douglas
Isle of Man IM1 2LN

Registered Agent

CW Corporate Services Limited
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Legal Advisers

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Long & Humphrey
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Douglas
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Independent Auditors

KPMG Audit LLC
Heritage Court
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Douglas
Isle of Man IM99 1HN

Principal Bankers

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Isle of Man IM99 1AJ

Lloyds TSB Offshore

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Consulting Actuaries

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Guernsey GY1 3BY

Pension Fund

Investment Manager

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5-11 St George's Street
Douglas
Isle of Man IM1 1AJ

Nominated Advisor and Broker

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London EC2M 2SJ

Registrar

Computershare Investor Services (Jersey) Limited
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Hilgrove Street
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Jersey JE1 1ES

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.

Manx Financial Group PLC

Directors' Report

06

The Directors present their annual report and the audited financial statements for the year ended 31 December 2013.

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 17. The Directors do not recommend the payment of a dividend (2012: nil).

Share capital

Particulars of the authorised and issued share capital of the Company are set out in note 25 to the financial statements.

Significant shareholdings

The number of shares held and the percentage of the issued shares which that number represented as at 12 February 2014 are:

	Number	% of issued capital
Rene Nominees (IOM) Limited ¹	26,288,992	25.76
Jim Mellon	17,635,332	17.28
Lynchwood Nominees Limited	10,483,089	10.27
Island Farms Limited	4,222,319	4.14
Hargreaves Lansdown (Nominees) Limited	3,501,518	3.43

¹ Together with other holdings Arron Banks, a former Director of the Group, is beneficially interested in 29,339,825 ordinary shares (28.74%).

The Directors are not aware of any other individual holding of greater than 3% as at 12 February 2014.

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:

Nick Sheard resigned on 22 March 2013.

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

	Number 31/12/13	Number 31/12/12
Jim Mellon ¹	17,635,332	17,635,332
David Gibson ²	1,300,000	428,853
Douglas Grant	680,821	680,821
Don McCrickard ³	66,666	66,666
Alan Clarke	52,149	52,149
Juan Kelly	27,860	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 1,300,000 Ordinary Shares held by TD Direct Investing Nominees (Europe) Limited on trust for David Gibson.

³ Comprises 66,666 Ordinary Shares held by Hargreaves Lansdown (Nominees) Limited on trust for Don McCrickard.

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

	Number 31/12/13	Number 31/12/12
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 18 to the financial statements.

Staff

At 31 December 2013 there were 54 members of staff (2012: 54), of whom 6 were part-time (2012: 5).

Investment in subsidiaries

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

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, financial reporting and risk management. The Committee members, Alan Clarke (Chairman) and David Gibson, are qualified accountants and independent Non-Executive Directors with current and relevant financial and banking 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.

Remuneration Committee

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

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
24 February 2014

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 salaries;
- Benefits-in-kind;
- Annual performance related payments;
- 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 taxable benefits-in-kind.

Annual performance related payments

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 25 to the financial statements.

Pension arrangements

The Chief Executive Officer, the Executive Chairman and Non-Executive Directors do not receive pension contributions.

Non-Executive Directors

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

Manx Financial Group PLC

Directors' Remuneration Report

10

Directors' emoluments

	Remuneration/ Fees £	Performance Related Pay £	Pension £	Compensation for loss of office £	2013 Total £	2012 Total £
Executives						
Jim Mellon	25,000	-	-	-	25,000	25,000
Denham Eke	25,000	-	-	-	25,000	25,000
Juan Kelly	142,531	15,000	14,253	-	171,784	149,440
Douglas Grant	135,938	15,000	13,469	-	164,407	141,240
Nick Sheard ³	47,160	-	4,304	45,000	96,464	102,740
Non-Executives						
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 ¹	-	-	-	-	-	7,292
Oliver Hare ²	-	-	-	-	-	18,750
Aggregate emoluments	488,129	30,000	32,026	45,000	595,155	581,962

¹ Arron Banks resigned on 19 July 2012.

² Oliver Hare resigned on 11 September 2012.

³ Nick Sheard resigned on 22 March 2013.

Approval

This report was approved by the Board of Directors on 24 February 2014 and signed on its behalf by:

Alan Clarke

Chairman of the Remuneration Committee
24 February 2014

Manx Financial Group PLC
Statement of Directors' Responsibilities
in respect of the Directors' Report and the financial statements

11

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 European Union (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 2013 which comprise the Group Income Statement, Group Statement of Other 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 Statements 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 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 2013 and of the Group's profit 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 (VAT)

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 20 to the financial statements concerning the reclaim of 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 was subsequently given leave to appeal and this was scheduled to be heard in October 2013 ("the VWFS Appeal"). However, this has now been delayed pending reference to a relevant European Court of Human Rights judgement.

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 2013 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
24 February 2014

Manx Financial Group PLC
Consolidated Income Statement

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For the year ended 31 December	Notes	2013 £000	2012 £000
Interest income	6	10,750	7,800
Interest expense	10	(2,493)	(2,259)
Net interest income		8,257	5,541
Fee and commission income		1,399	1,226
Fee and commission expense		(990)	(612)
Commission share schemes	3(t)	(2,249)	(1,032)
Net trading income		6,417	5,123
Other operating income		163	212
Operating income		6,580	5,335
Personnel expenses		(2,863)	(3,202)
Other expenses	7	(1,657)	(2,637)
Provision for impairment on loan assets	8	(850)	(7)
Depositors' Compensation Scheme recovery	9	100	37
Depreciation	18	(252)	(214)
VAT recoverable	20	-	71
Realised gains on available-for-sale financial assets	16	18	28
Unrealised loss on financial assets carried at fair value	15	(3)	(128)
Profit/(loss) before income tax recovery	10	1,073	(717)
Income tax recovery	11	14	380
Profit/(loss) for the year		1,087	(337)
Basic earnings per share (pence)	12	1.12	(0.38)
Diluted earnings per share (pence)	12	0.78	(0.38)

The notes on pages 18 to 47 form part of these financial statements.

The Directors believe that all results derive from continuing activities.

Manx Financial Group PLC
Consolidated Statement of Other Comprehensive Income

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For the year ended 31 December	Notes	2013 £000	2012 £000
Other comprehensive income:			
Items that will be reclassified to profit or loss			
Available-for-sale gains taken to equity	16	10	-
Items that will never be reclassified to profit or loss			
Actuarial losses on defined benefit pension scheme taken to equity	24	<u>(53)</u>	<u>(98)</u>
Total comprehensive income for the period attributable to owners		<u>1,044</u>	<u>(435)</u>
Basic earnings/(loss) per share (pence)	12	1.08	(0.49)
Diluted earnings/(loss) per share (pence)	12	0.76	(0.49)

The notes on pages 18 to 47 form part of these financial statements.

Manx Financial Group PLC
Consolidated and Company Statement of Financial Position

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As at 31 December	Notes	Group		Company	
		2013 £000	2012 £000	2013 £000	2012 £000
Assets					
Cash and cash equivalents	14	4,183	1,918	-	-
Financial assets at a fair value through profit or loss	15	48	51	-	-
Available-for-sale financial instruments	16	9,000	12,484	-	-
Loans and advances to customers	17	75,819	58,495	-	-
Commissions receivable		289	312	-	-
Property, plant and equipment	18	629	742	-	-
Investment in Group undertakings	19	-	-	14,072	12,072
Trade and other receivables	20	1,014	1,252	130	98
Deferred tax asset	11	394	380	-	-
Goodwill	19	2,344	2,344	-	-
Total assets		93,720	77,978	14,202	12,170
Liabilities					
Customer accounts	21	78,115	63,731	-	-
Creditors and accrued charges	22	754	2,162	9	339
Amounts owed to Group undertakings	19	-	-	1,772	1,512
Loan notes	23	6,065	4,510	6,065	4,510
Deferred consideration	22	-	160	-	160
Pension liability	24	252	200	-	-
Total liabilities		85,186	70,763	7,846	6,521
Equity					
Called up share capital	25	18,933	18,433	18,933	18,433
Profit and loss account		(10,399)	(11,218)	(12,577)	(12,784)
Total equity		8,534	7,215	6,356	5,649
Total liabilities and equity		93,720	77,978	14,202	12,170

The financial statements were approved by the Board of Directors on 24 February 2014 and signed on its behalf by:

Jim Mellon
Executive Chairman

Denham Eke
Chief Executive Officer

Douglas Grant
Group Finance Director

The notes on pages 18 to 47 form part of these financial statements.

Manx Financial Group PLC

Consolidated Statement of Cash Flows

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For the year ended 31 December	Notes	2013 £000	2012 £000
RECONCILIATION OF PROFIT / (LOSS) BEFORE TAXATION TO OPERATING CASH FLOWS			
Profit/(loss) before tax on continuing activities		1,073	(717)
Unrealised loss on financial assets carried at fair value		3	128
Loss/(gain) on disposal of property, plant and equipment		17	(7)
Depreciation charge	18	252	214
Realised gains on available-for-sale investments		(18)	(28)
Actuarial loss on defined benefit pension scheme taken to equity	24	(53)	(98)
Pension liability	24	52	121
Share-based payment credit	25	(50)	-
Decrease in trade and other receivables		238	18
(Decrease)/increase in trade and other payables		(1,408)	1,307
Decrease/(increase) in commission debtors		23	(78)
		<hr/>	<hr/>
Net cash inflow from trading activities		129	860
Increase in loans and advances to customers		(17,324)	(8,970)
Increase in deposit accounts		14,384	7,821
		<hr/>	<hr/>
Cash outflow from operating activities		(2,811)	(289)
CASH FLOW STATEMENT			
Cash flows from operating activities			
Cash outflow from operating activities		(2,811)	(289)
Taxation paid		-	-
		<hr/>	<hr/>
Net cash outflow from operating activities		(2,811)	(289)
Cash inflow/(outflow) from investing activities			
Purchase of property, plant and equipment	18	(156)	(186)
Sale/(purchase) of available-for-sale financial instruments	16	3,512	(1,961)
Sale of property, plant and equipment		-	51
Payment of deferred consideration		(335)	(332)
		<hr/>	<hr/>
Net cash inflow/(outflow) from investing activities		3,021	(2,428)
Cash flows from financing activities			
Issue of loan notes	23	2,055	2,300
		<hr/>	<hr/>
Net cash inflow from financing activities		2,055	2,300
		<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents		2,265	(417)
Included in cash flows are:			
Interest received – cash amounts		9,072	8,003
Interest paid – cash amounts		(2,101)	(2,396)
Significant non-cash flows in the year			
Conversion of loan notes to share capital		500	-

The notes on pages 18 to 47 form part of these financial statements.

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

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For the year ended 31 December Group	Share Capital £000	Retained Earnings £000	2013 £000	2012 £000
Balance as at 1 January	18,433	(11,218)	7,215	7,650
Profit/(loss) for the year	-	1,087	1,087	(337)
Other comprehensive expense	-	(43)	(43)	(98)
Transactions with owners:				
Shares issued	500	-	500	-
Shares to be issued (see note 22)	-	(175)	(175)	-
Share-based payment expense	-	(50)	(50)	-
Balance as at 31 December	<u>18,933</u>	<u>(10,399)</u>	<u>8,534</u>	<u>7,215</u>

For the year ended 31 December Company	Share Capital £000	Retained Earnings £000	2013 £000	2012 £000
Balance as at 1 January	18,433	(12,784)	5,649	6,341
Profit/(loss) for the year	-	432	432	(692)
Transactions with owners:				
Shares issued	500	-	500	-
Shares to be issued (see note 22)	-	(175)	(175)	-
Share-based payment expense	-	(50)	(50)	-
Balance as at 31 December	<u>18,933</u>	<u>(12,577)</u>	<u>6,356</u>	<u>5,649</u>

The notes on pages 18 to 47 form part of these financial statements.

Manx Financial Group PLC

Notes to the Consolidated Financial Statements

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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 2013 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 European Union (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 2012 annual report, with the exception of those detailed below.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- *IFRS 10 Consolidated Financial Statements (2011)*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosure of Interests in Other Entities*
- *IFRS 13 Fair Value Measurement*
- *Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)*
- *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)*
- *IAS 19 Employee Benefits (2011)*
- *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) (2013)*
- *Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)*
- *IAS 36 Recoverable amount disclosures for non-financial assets*

The nature and the effects of significant changes are explained below.

Subsidiaries, including structured entities

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns. In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed its control conclusions as of 1 January 2013. No changes resulted from this reassessment.

Fair value measurement

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

This change had no significant impact on the measurements of the Group's assets and liabilities, but the Group has included new disclosures in the financial statements, which are required under IFRS 13.

In addition, the IASB has issued amendments to reverse the unintended requirement in IFRS 13 to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13.

Presentation of items of other comprehensive income (OCI)

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of comprehensive income, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

2. Basis of preparation (continued)**(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 power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

(b) 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 income statement.

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

3. Significant accounting policies (continued)

(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	10 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 income statement after taking into account provision for impairment losses (see note 3(e)).

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.

3. Significant accounting policies (continued)**(d) Financial assets (continued)****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 income statement 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 income statement.

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.

Fair value

The fair value hierarchy is applied to all financial assets, refer to note 4(c) for further information.

(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 income statement 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 income statement. 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 income statement.

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 income statement 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 income statement 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 income statement, 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 Hire Purchase (HP) contracts

When assets are subject to a finance lease or HP contract, the present fair 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 income statement 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 income statement 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 the loans is recognised over the period for which service has been provided or on completion of an act to which the fees relate.

(m) Programme costs

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

(n) Segmental reporting

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

Manx Financial Group PLC

Notes to the Consolidated Financial Statements

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3. Significant accounting policies (continued)

(o) New standards and interpretations not yet adopted

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

New/revised International Accounting Standards/International Financial Reporting Standards (IAS/IFRS)	Effective date (accounting periods commencing on or after)
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
Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)	1 January 2014
IFRIC 21 Levies	1 January 2014
Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	1 January 2014
Defined Benefit Plans : Employee Contributions (Amendment to IAS 19)	1 July 2014
IFRS 9 Financial Instruments	To be decided

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 the 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 accuracy of the impairment allowances and provisions for counter claims and legal costs depend on how closely the estimated future cash flows mirror actual experience.

(q) Fiduciary deposits

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

(r) Prepaid card funds

The Group 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 income statement.

(t) Commission share schemes

This represents the cost incurred in relation to certain loan books where commission is paid based on the overall profitability of the relevant book. Each such lending scheme has its own commercially agreed terms.

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 obligations. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure, such as individual obligor default, country and sector risk.

The Group is principally exposed to credit risk with regard to loans and advances to customers, comprising HP and finance lease receivables, litigation funding loans, unsecured personal loans, secured commercial loans, block discounting and stock 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:

	2013 £000	2012 £000
Carrying amount	75,819	58,495
Individually impaired ¹		
Grade A	-	-
Grade B	-	-
Grade C	4,305	5,423
Gross value	4,305	5,423
Allowance for impairment	(3,578)	(4,150)
Carrying value	727	1,273
Collective allowance for impairment	(179)	(163)
Past due but not impaired		
Less than 1 month	24	819
1 month but less than 2 months	123	467
2 months but less than 3 months	48	555
3 months and over	1,404	478
Carrying value	1,599	2,319
Neither past due nor impaired	73,672	55,066

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. In addition, the commission share schemes have an element of capital indemnified. 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 17 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 2013	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	617	1,817	1,270	5,359	28,766	30,517	13,690	-	82,036
Other liabilities	754	-	-	51	1,600	5,790	-	252	8,447
Total liabilities	1,371	1,817	1,270	5,410	30,366	36,307	13,690	252	90,483

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	5,387	200	8,657
Total liabilities	1,812	2,836	3,179	5,694	21,144	24,012	17,276	200	76,153

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 2013	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 & cash equivalents	4,183	-	-	-	-	-	-	-	4,183
Available-for-sale financial instruments	7,000	2,000	-	-	-	-	-	-	9,000
Customer accounts receivable	1,043	3,222	4,679	6,505	11,837	38,916	9,521	96	75,819
Commission debtors	16	151	61	61	-	-	-	-	289
Other assets	48	-	-	-	-	-	-	4,381	4,429
Total assets	12,290	5,373	4,740	6,566	11,837	38,916	9,521	4,477	93,720
Liabilities									
Customer accounts	609	1,815	1,266	5,291	28,250	28,792	12,092	-	78,115
Other liabilities	754	-	-	50	1,460	4,555	-	252	7,071
Total liabilities	1,363	1,815	1,266	5,341	29,710	33,347	12,092	252	85,186

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 & 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	4,775	200	7,032
Total liabilities	1,805	2,812	3,111	5,552	20,531	21,801	14,951	200	70,763

4. Risk and capital management (continued)

(a) Risk management (continued)

iii) Operational risk

Operational risk arises from the potential for inadequate systems including systems' breakdown, errors, poor management, breaches in internal controls, fraud and external events to result in financial loss or reputational damage. Operational risk also occurs when lending through an outsourced partner. The Group manages the 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 2013 and 2012, 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 £48,000 at 31 December 2013 (2012: £51,000) 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 rate 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.

	Sight- 1 month £000	>1 month - 3 months £000	>3 month - 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
31 December 2013									
Assets									
Cash & cash equivalents	4,183	-	-	-	-	-	-	-	4,183
Available-for-sale financial instruments	9,000	-	-	-	-	-	-	-	9,000
Customer accounts receivable	4,265	4,679	6,505	11,837	38,916	9,521	96	-	75,819
Commission debtors	-	-	-	-	-	-	-	289	289
Other assets	-	-	-	-	-	-	-	4,429	4,429
Total assets	17,448	4,679	6,505	11,837	38,916	9,521	96	4,718	93,720
Liabilities									
Customer accounts	2,424	1,266	5,291	28,250	28,792	12,092	-	-	78,115
Other liabilities	754	-	-	50	1,460	4,555	-	252	7,071
Total capital and reserves	-	-	-	-	-	-	-	8,534	8,534
Total liabilities and equity	3,178	1,266	5,291	28,300	30,252	16,647	-	8,786	93,720
Interest rate sensitivity gap	14,270	3,413	1,214	(16,463)	8,664	(7,126)	96	(4,068)	-
Cumulative	14,270	17,683	18,897	2,434	11,098	3,972	4,068	-	-

4. Risk and capital management (continued)**(a) Risk management (continued)****(iv) Market risk (continued)****Interest risk re-pricing table (continued)**

31 December 2012	Sight- 1 month £000	>1 month - 3 months £000	>3 month - 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 & 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	-	-

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 (2012: 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 2013	Sight- 1 month £000	>1 month - 3 months £000	>3 month - 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	14,270	3,413	1,214	(16,463)	8,664	(7,126)	96	(4,068)	-
Weighting	0.000	0.003	0.007	0.014	0.027	0.054	0.115	0.000	-
£000	-	10	8	(230)	234	(385)	11	-	(352)

31 December 2012	Sight- 1 month £000	>1 month - 3 months £000	>3 month - 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)

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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 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. The 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.

(c) Fair value of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments;
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Financial instruments measured at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

31 December 2013	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment securities				
Government bonds	9,000	-	-	9,000
Equities	48	-	-	48
	9,048	-	-	9,048

4. Risk and capital management (continued)
(c) Fair value of financial instruments (continued)

Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2013	Level 1 £000	Level 2 £000	Level 3 £000	Total fair values £000	Total carrying amount £000
Assets					
Cash and cash equivalents	-	4,183	-	4,183	4,183
Loans and advances to customers	-	75,819	-	75,819	75,819
Commissions receivable	-	289	-	289	289
Trade and other receivables	-	1,014	-	1,014	1,014
	-	81,305	-	81,305	81,305
Liabilities					
Customer accounts	-	78,115	-	78,115	78,115
Creditors and accrued charges	-	754	-	754	754
Loan notes	-	6,065	-	6,065	6,065
	-	84,934	-	84,934	84,934

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. Input into the models may include data from third party brokers based on over the counter trading activity, and information obtained from other market participants, which includes observed primary and secondary transactions.

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 2013	Asset and Personal Finance £000	Litigation Finance £000	Conister Card Services £000	Wealth Management £000	Investing Activities £000	Total £000
Net interest income	8,614	-	-	-	(357)	8,257
Operating income	5,548	-	14	1,375	(357)	6,580
Profit/(loss) before income tax recovery	1,165	(214)	14	276	(168)	1,073
Capital expenditure	156	-	-	-	-	156
Total assets	92,044	677	220	649	130	93,720

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5. Segmental analysis (continued)

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/(loss) before income tax recovery	(497)	141	16	24	(401)	(717)
Capital expenditure	184	-	-	2	-	186
Total assets	76,269	899	134	578	98	77,978

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. Other expenses

	2013 £000	2012 £000
Professional and legal fees	281	737
Marketing costs	122	148
IT costs	298	303
Establishment costs	502	472
Communication costs	48	46
Travel costs	94	95
Bank charges	77	47
Insurance	97	102
Irrecoverable VAT	(41)	139
Other costs	179	548
	1,657	2,637

8. Allowance for impairment

The charge in respect of specific allowances for impairment comprises:

	2013 £000	2012 £000
Specific impairment allowances made	833	465
Reversal of allowances previously made	-	(396)
Total charge for specific provision for impairment	833	69

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

	2013 £000	2012 £000
Collective impairment allowances made	17	75
Release of allowances previously made	-	(137)
Total charge/(credit) for collective allowances for impairment	17	(62)
Total charge for allowances for impairment	850	7

9. Depositors' Compensation Scheme

	2013 £000	2012 £000
Provision in respect of Kaupthing Singer & Friedlander (Isle of Man) Limited	100	37
	100	37

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 the income statement in that regard. Repayments from the Financial Supervision Commission of £133,506 and £32,737 have been received and a further £44,315 is expected from the Scheme.

10. Profit / (loss) before income tax recovery

The profit / (loss) before income tax recovery for the year is stated after charging:

	2013 £000	2012 £000
Interest expense payable to depositors	2,136	2,018
Interest expense payable on loan notes	357	241
Depreciation	252	214
Loss/(profit) on sale of fixed assets	17	(7)
Share options credit	(50)	-
Directors' remuneration	325	362
Directors' fees	163	159
Directors' pensions	32	35
Directors' bonuses	30	-
Auditors' remuneration: as Auditors current year	72	72
non-audit services	18	133
Pension cost defined contribution scheme	9	35
Operating lease rentals for property	331	300
Acquisition and restructuring costs	51	864

11. Income tax expense

The main rate of income tax in the Isle of Man is 0% (2012: 0%). However the profits of the Group's Manx banking activities are taxed at 10% (2012: 10%). The profits of the Group's subsidiaries that are subject to UK corporation tax are taxed at a rate of 20% (2012: 20%).

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 for income tax is required. The value of tax losses carried forward increased to £394,000 (2012: £380,000) which has been recognised as a deferred tax asset and results in a £14,000 credit to the income statement.

12. Earnings per share

	2013	2012
Profit/(loss) for the year	£1,087,000	£(337,000)
Weighted average number of ordinary shares in issue	96,899,019	89,570,252
Basic earnings/(loss) per share	1.12p	(0.38)p
Diluted earnings/(loss) per share	0.78p	(0.38)p
Total comprehensive income for the period	£1,044,000	£(435,000)
Weighted average number of ordinary shares in issue	96,899,019	89,570,252
Basic earnings/(loss) per share	1.08p	(0.49)p
Diluted earnings/(loss) per share	0.76p	(0.49)p

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12. Earnings per share (continued)

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

The diluted earnings/(loss) per share calculation assumes that all convertible loan notes, warrants and share options have been converted/exercised at the beginning of the year where they are dilutive.

13. Company profit

The profit on ordinary activities after taxation of the Company is £432,000 (2012: loss of £692,000).

14. Cash and cash equivalents

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Cash at bank and in hand	4,137	1,872	-	-
Short-term deposits	46	46	-	-
	<u>4,183</u>	<u>1,918</u>	<u>-</u>	<u>-</u>

Cash at bank includes an amount of £241,699 (2012: £18,809) representing cheques issued in the course of transmission.

The remaining maturity of short-term deposits is as follows:

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Less than 8 days	46	46	-	-
	<u>46</u>	<u>46</u>	<u>-</u>	<u>-</u>

15. Financial assets at fair value through profit or loss

The investment represents shares in 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. Dividend income of £350,000 has been received from this investment since it was made.

16. Available-for-sale financial instruments

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
UK Government Treasury Bills	9,000	12,484	-	-
	<u>9,000</u>	<u>12,484</u>	<u>-</u>	<u>-</u>

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

17. Loans and advances to customers

Group	Gross Amount £000	2013 Impairment Allowance £000	Carrying Value £000	Gross Amount £000	2012 Impairment Allowance £000	Carrying Value £000
HP balances	46,222	(813)	45,409	37,955	(883)	37,072
Finance lease balances	8,882	(707)	8,175	6,543	(696)	5,847
Litigation funding	2,164	(1,487)	677	2,526	(1,627)	899
Unsecured personal loans	3,815	(306)	3,509	3,913	(362)	3,551
Vehicle stocking plans	1,476	-	1,476	1,404	-	1,404
Block discounting	5,192	-	5,192	4,601	-	4,601
Secured commercial loans	6,991	(435)	6,556	5,866	(745)	5,121
Secured personal loans	4,834	(9)	4,825	-	-	-
	79,576	(3,757)	75,819	62,808	(4,313)	58,495

Collateral is held, in the form of underlying assets, for HP, finance leases, vehicles 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	2013 £000	2012 £000
Balance at 1 January	4,150	4,305
Specific allowance for impairment made	460	69
Write-offs	(1,032)	(224)
Balance at 31 December	3,578	4,150

Collective allowance for impairment	2013 £000	2012 £000
Balance at 1 January	162	225
Collective allowance for impairment made	17	-
Release of allowances previously made	-	(62)
Balance at 31 December	179	163
Total allowances for impairment	3,757	4,313

Advances on preferential terms are available to all Directors, management and staff. As at 31 December 2013 £93,187 (2012: £133,740) had been 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 two loan exposures exceeded 10% of the capital base of the Group (2012: one loan exposures).

Exposure	Outstanding Balance 2013 £000	Outstanding Balance 2012 £000	Facility limit £000
Secured commercial loan	-	4,176	N/A
Block discounting facility	2,229	-	2,850

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17. Loans and advances to customers (continued)

HP and finance lease receivables

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

	2013 £000	2012 £000
Less than one year	25,495	21,841
Between one and five years	42,754	30,520
Gross investment in HP and finance lease receivables	68,249	52,361

The investment in HP and finance lease receivables net of unearned income comprises:

	2013 £000	2012 £000
Less than one year	19,540	18,454
Between one and five years	35,564	26,044
Net investment in HP and finance lease receivables	55,104	44,498

18. Property, plant and equipment

Group	Leasehold Improvements £000	IT Equipment £000	Furniture & Equipment £000	Motor Vehicles £000	Total £000
Cost					
As at 1 January 2013	179	928	617	84	1,808
Additions	3	153	-	-	156
Disposals	-	-	(17)	-	(17)
As at 31 December 2013	182	1,081	600	84	1,947
Accumulated depreciation					
As at 1 January 2013	7	522	471	66	1,066
Charge for year	31	192	17	12	252
Disposals	-	-	-	-	-
As at 31 December 2013	38	714	488	78	1,318
Carrying value at 31 December 2013	144	367	112	6	629
Carrying value at 31 December 2012	172	406	146	18	742

19. 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 2013 % Holding	Date of Incorporation	Total 2013 £000	Total 2012 £000
Conister Bank Limited	Asset and Personal Finance	100	05.12.1935	12,067	10,067
TransSend Holdings Limited	Holding Company for Prepaid Card Division	100	05.11.2007	-	-
Bradburn Limited	Holding Company	100	15.05.2009	-	-
Edgewater Associates Limited	Wealth Management	100	24.12.1996	2,005	2,005
				14,072	12,072

Amounts owed to group undertakings are unsecured, interest-free and repayable on demand.

MFG issued two subordinated loans to the Bank during 2013 of £1 million each, with a repayment term of 6 years and 7% interest payable per annum levied at the discretion of the lender.

Goodwill

	Group 2013 £000	Group 2012 £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. 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. The sensitivity of the analysis was tested using additional discount factors of 15% and 20% on varying sales volumes.

There has been no change in the detailed method of measurement for EWA and ECF when compared to 2012.

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.

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

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20. Trade and other receivables

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Trade debtors	116	53	-	-
Prepayments and other debtors	432	733	27	30
VAT recoverable	466	466	103	68
	1,014	1,252	130	98

Included in trade and other receivables is an amount of £466,000 (2012: £466,000) 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 was scheduled to be heard in October 2013. However, this has now been delayed pending reference to a relevant European Court of Human Rights judgement.

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 (from Q4 2012 the Bank reverted back to the previous method).

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.

21. Customer accounts

	2013 £000	2012 £000
Retail customers: term deposits	75,989	61,647
Corporate customers: term deposits	2,126	2,084
	78,115	63,731

Fiduciary deposits

The Bank acts as agent bank to a number of customers, for balances totalling £7.8 million (2012: £19.9 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.

22. Creditors and accrued charges

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Commission creditors	577	1,474	-	-
Other creditors and accruals	177	688	9	339
	754	2,162	9	339
	2013 £000	2012 £000	2013 £000	2012 £000
Deferred consideration				
Edgewater Associates Limited	-	160	-	160
	-	160	-	160

Deferred consideration

The deferred consideration of £160,000 in cash and £175,000 in shares payable to the previous shareholders of Edgewater Associates Limited on approval of the respective company's accounts for each of the financial year ending 31 December 2012 was settled during 2013. A top up payment was also settled in the year including £175,000 shares to be issued.

It was agreed by all parties that the full amount of deferred consideration due in respect of the 31 December 2012 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 would be payable 50% in cash and 50% in the Group's shares. Such additional shares would be issued at the same price as the consideration shares for that year.

No incentive commission has been paid and no provision has been made in the accounts of the Group in respect of the incentive commission. All payments in relation to the Edgewater Associates Limited acquisition have been made, as the terms were not met.

23. Loan notes

	Notes	Group		Company	
		2013 £000	2012 £000	2013 £000	2012 £000
Related parties					
J Mellon	JM	1,750	1,750	1,750	1,750
Burnbrae Limited	BL	1,200	1,200	1,200	1,200
Southern Rock Insurance Company Limited	SR	460	500	460	500
Copper Development Corporation	CDC	500	500	500	500
Rock Holdings Limited	RH	-	460	-	460
		3,910	4,410	3,910	4,410
Unrelated parties	UP	2,155	100	2,155	100
		6,065	4,510	6,065	4,510

23. Loan notes (continued)

JM – Two loans, one of £500,000 maturing on 31 July 2017 with interest payable of 7% per annum, and one of £1,250,000 maturing on 26 February 2015 paying interest of 9% per annum. 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% per annum. 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 previously consisting of £500,000 maturing on 24 October 2017, paying interest of 7% per annum was converted into equity on 31 May 2013 at a rate of 4 pence, and remains entitled to 8.3 million warrants at an exercise price of 6 pence. Arron Banks, a significant shareholder holds a 100% stake in **SR**. On 24 April 2013 **RH** assigned its loan of £460,000 to **SR**.

CDC – One loan of £350,000 maturing on 5 September 2017 with interest payable of 5% per annum, and another loan of £150,000 maturing on 3 October 2017 paying interest of 5% per annum. Denham Eke is a director of **CDC**.

RH – Previously one loan consisting of £460,000, maturing on 26 February 2015 with interest payable of 9% per annum. The loan is convertible at the rate of 9 pence. **RH** is linked to Arron Banks, a significant shareholder. This loan was assigned to **SR** on 24 April 2013.

UP – Eleven loans consisting of an average £196,000, with an average interest payable of 3.5% per annum. The earliest maturity date is 22 October 2014 and the latest maturity is 20 November 2018.

With respect to the convertible 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.

24. Pension liability

The Conister Trust Pension and Life Assurance Scheme (Scheme) operated by the Company is a funded defined benefit arrangement which provides retirement benefits based on final pensionable salary. The Scheme is closed to new entrants and the last active member of the Scheme left pensionable service in 2011.

The Scheme is approved in the Isle of Man by the Assessor of Income Tax under the Income Tax (Retirement Benefit Schemes) Act 1978 and must comply with the relevant legislation. In addition, it is registered as an authorised scheme with the Insurance and Pensions Authority (IPA) in the Isle of Man under the Retirement Benefits Scheme Act 2000. The Scheme is subject to regulation by the IPA but there is no minimum funding regime in the Isle of Man.

The Scheme is governed by two corporate trustees, Conister Bank Limited and Boal & Co (Pensions) Limited. The trustees are responsible for the Scheme's investment policy and for the exercise of discretionary powers in respect of the Scheme's benefits.

The rules of the Scheme state: "*Each Employer shall pay such sums in each Scheme Year as are estimated to be required to provide the benefits of the Scheme in respect of the Members in its employ*".

Exposure to risk

The Company is exposed to the risk that additional contributions will be required in order to fund the Scheme as a result of poor experience. Some of the key factors that could lead to shortfalls are:

- investment performance – the return achieved on the Scheme's assets may be lower than expected; and
- mortality – members could live longer than foreseen. This would mean that benefits are paid for longer than expected, increasing the value of the related liabilities.

24. Pension liability (continued)

In order to assess the sensitivity of the Scheme's pension liability to these risks, sensitivity analyses have been carried out. Each sensitivity analysis is based on changing one of the assumptions used in the calculations, with no change in the other assumptions. The same method has been applied as was used to calculate the original pension liability and the results are presented in comparison to that liability. It should be noted that in practice it is unlikely that one assumption will change without a movement in the other assumptions; there may also be some correlation between some of these assumptions. It should also be noted that the value placed on the liabilities does not change on a straight line basis when one of the assumptions is changed. For example, a 2% change in an assumption will not necessarily produce twice the effect on the liabilities of a 1% change.

No changes have been made to the method or to the assumptions stress-tested for these sensitivity analyses compared to the previous period. The investment strategy of the Scheme has been set with regard to the liability profile of the Scheme. However, there are no explicit asset-liability matching strategies in place.

Restriction of assets

No adjustments have been made to the balance sheet items as a result of the requirements of IFRIC 14 issued by IASB's International Financial Reporting Interpretations Committee.

Scheme amendments

There have not been any past service costs or settlements in the financial year ending 31 December 2013 (2012: none).

Funding policy

The funding method employed to calculate the value of previously accrued benefits is the Projected Unit Method. Following the cessation of accrual of benefits when the last active member left service in 2011, regular future service contributions to the Scheme are no longer required. However, additional contributions will still be required to cover any shortfalls that might arise following each funding valuation.

The most recent full actuarial valuation was carried out at 1 April 2013, which showed that the market value of the Scheme's assets was £1,283,000 representing 80.0% of the benefits that had accrued to members, after allowing for expected future increases in earnings. As required by IAS 19 this valuation has been updated by the actuary as at 31 December 2013.

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

	2013 £000	2012 £000
Total underfunding in funded plans recognised as a liability		
Fair value of plan assets	1,245	1,227
Present value of funded obligations	(1,497)	(1,427)
	<u>(252)</u>	<u>(200)</u>
Movement in the liability for defined benefit obligations		
Opening defined benefit obligations at 1 January	1,427	1,271
Benefits paid by the plan	(66)	(57)
Interest on obligations	68	72
Actuarial loss	68	141
Liability for defined benefit obligations at 31 December	<u>1,497</u>	<u>1,427</u>

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24. Pension liability (continued)

Movement in plan assets	2013 £000	2012 £000
Opening fair value of plan assets at 1 January	1,227	1,192
Expected return on assets	59	39
Contribution by employer	10	10
Actuarial gain	15	43
Benefits paid	(66)	(57)
Closing fair value of plan assets at 31 December	1,245	1,227

Expense recognised in income statement	2013 £000	2012 £000
Interest on obligation	68	72
Expected return on plan assets	(59)	(37)
Total included in personnel costs	9	35
Actual return on plan assets	74	(93)

Expense recognised in other comprehensive income	2013 £000	2012 £000
Actuarial gain on plan assets	15	43
Actuarial loss on defined benefit obligations	(68)	(141)
	(53)	(98)

Plan assets consist of the following	2013 %	2012 %
Equity securities	37	33
Corporate bonds	39	39
Government bonds	20	22
Cash	1	6
Other	3	-
	100	100

The actuarial assumptions used to calculate Scheme liabilities under IAS19 are as follows:	2013 %	2012 %	2011 %	2010 %	2009 %
Rate of increase in pension in payment:					
- service up to 5 April 1997	-	-	-	-	-
- service from 6 April 1997 to 13 September 2005	3.10	2.30	2.90	3.40	3.50
- service from 14 September 2005	2.10	1.80	2.10	2.20	2.30
Discount rate applied to scheme liabilities	4.80	4.90	5.70	5.70	5.70
Return on assets	4.80	2.90	3.10	5.20	5.95

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.

25. Called up share capital

Authorised: Ordinary shares of no par value	Number	
At 31 December 2012 & 2013	150,000,000	
Issued and fully paid: Ordinary shares of no par value	Number	£000
At 31 December 2012	89,570,252	18,433
At 31 December 2013	102,070,252	18,933

The number of warrants in issue at 31 December 2013 is £36.6 million (2012: 36.6 million) (see note 23 for further details). In addition there are a number of convertible loans (see note 23 for further details).

Share options

Share option reserve	No of Shares 000	Value £000
As at 31 December 2012	1,369	168
Grant of options	-	-
Lapses	(313)	(50)
As at 31 December 2013	1,056	118

Performance conditions attached to share options that have not fully vested are as follows:

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

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

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

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

* modified on 25 April 2008

	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%

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26. Analysis of changes in financing during the year

	2013 £000	2012 £000
Analysis of changes in financing during the year		
Balance at 1 January	22,943	20,643
Issue of loan notes	2,055	2,300
	24,998	22,943

The 2013 closing balance is represented by £18,933,000 (2012: £18,433,000) share capital and £6,065,000 (2012: £4,510,000) of loan notes.

27. Regulator

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

28. Related party transactions

Staff loans

Details of staff loans are given in note 17 to the financial statements.

Commercial loans

Normal commercial loans are made to various companies connected to Jim Mellon. As at 31 December 2013, £343,415 of capital and interest was outstanding (2012: £273,566).

Edgewater Associates Limited subordinated loan

On 28 February 2013, the Company made a subordinated loan to Edgewater Associates Limited of £50,000. 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 23 to the financial statements.

Key management personal (including Executive Directors') compensation

	2013 £000	2012 £000
Short-term employee benefits	371	397

29. Operating leases

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

	2013		2012	
	Leasehold Property £000	Other £000	Leasehold Property £000	Other £000
Less than one year	297	-	297	6
Between one and five years	825	-	825	-
Over five years	871	-	1,078	-
	1,993	-	2,200	6

30. 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.

31. Subsequent events

No significant subsequent events have occurred following 31 December 2013.



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