



MANX FINANCIAL
GROUP PLC

ANNUAL REPORT 2014

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 (LSE : MFX) which holds the entire issued share capital of a suite of financial service companies based in the Isle of Man and the UK. These companies offer financial services to both retail and commercial customers. MFG's strategy is to grow both 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 £157 million.

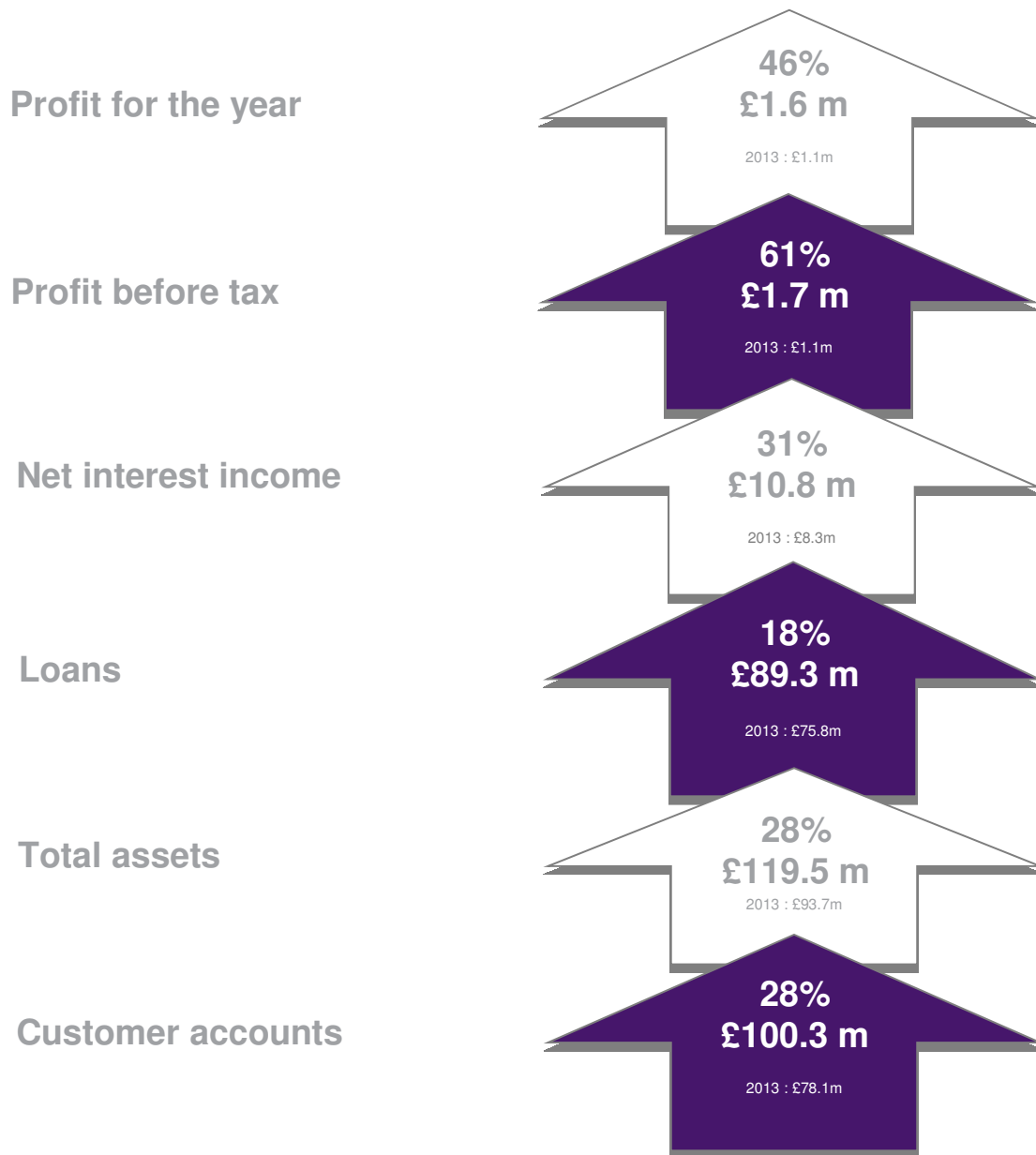
EWA specialises in the areas of wealth management, mortgage and general insurance, and retirement planning.

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CONISTER CARD SERVICES

Conister Card Services Limited (“CCS”) is the Group’s pre-paid card division providing business clients with payment solutions that are both cost effective and create new revenue opportunities.





Jim Mellon
Chairman

Dear Shareholders,

When I wrote to you last year, I commented that I believed that the Group had turned a significant corner by moving into sustained profitability. I am, therefore, pleased to report a record profit before tax for the Group of £1.73 million (2013: £1.07 million). This represents a growth of 61%, and has led to net profit for the year of £1.59 million (2013: £1.09 million), an increase of 46%, continuing progress from the 2014 Interim net profit of £0.72 million to a second half figure of £0.87 million. This outcome has further helped strengthen our balance sheet with a 17% increase in total equity to £9.98 million (2013: £8.53 million), providing a respectable Return on Equity of 15.9% and confirming that our strategy of growing lending through wholesale funding partnerships and retaining a disciplined approach to expenditure is working well for us. 2014 was also a year when we achieved an important milestone whereby our total assets exceeded £100 million for the first time, to reach nearly £120 million at year-end. Whilst increased liquidity is returning to the lending market in both the Isle of Man and the UK, there is still an imbalance between funding requirements and available loan finance. We remain well placed to take advantage of this gap.

Having addressed the issue of profitability, we now intend to further improve the Group's systems to provide enhanced functionality to our offering. Technology is rapidly changing how banks and financial services providers interact with their customers. For banks, both borrowers and lenders alike benefit from a more immediate delivery. The time of fully staffed branch networks, ATMs and overseas call centres is running out. New entrants to the lending market have taken advantage of the High Street banks' lack of appetite or ability to embrace digital life. These new lenders recognise that customers now, and even more so in the future, want to engage with their bank in ways and at times convenient to themselves, and not be driven by the constraints of defined opening hours and menu-driven telephone systems. Equally, as the understanding of risk becomes ever more sophisticated, the use of data-driven algorithms allows credit decisions in real-time, rather than tardy rulings by remote committees. Unlike the traditional banks, we are not shackled with expensive branch networks or legacy IT systems which hamper implementing the service delivery now required by customers. The advances in technology driven service provision also benefit financial advisors, who are now able to offer more focussed and more competitive solutions to their clients. As such, we are in an enviable position to benefit from the enhancements provided by this financial technology revolution and we intend to invest in this area in the coming years.

Manx Financial Group PLC

In terms of the 2014 outcome, our net interest income increased by 31% to £10.83 million (2013: £8.26 million) and net trading income rose by 13% to £7.25 million (2013: £6.42 million), which together led to a 12% growth in operating income. Personnel and operations costs increased by only 2% which resulted in profit before income tax growing by 61% to £1.73 million (2013: £1.07 million). After taxation, our profit for the year of £1.59 million (2013: £1.09 million), showed a

growth of 46%. As a result, our basic earnings per share ("EPS") increased by 39% to 1.56 pence (2013: 1.12 pence), providing an imputed earnings multiple of 7.9 (based on 12.29 pence, being the Group's share Volume Weighted Average Price for January 2015) and our diluted EPS increased by 26% to 0.98 pence (2013: 0.78 pence).

Our total assets increased by 28% to £119.51 million (2013: (£93.72 million), including loans and advances rising by 18% to £89.34 million (2013: £75.82 million) and cash and near equivalents growing by 89% to £24.90 million (2013: £13.18 million). This was supported by a 28% increase in our customer accounts to £100.26 million (2013: £78.12 million). During the period shareholder equity grew by 17% to £9.98 million (2013: £8.53 million).

We announced the formation of Manx Financial Limited in the second half of 2014 and commenced trading in both the Isle of Man finance broking and the Isle of Man foreign exchange broking markets. These businesses are tapping into an unsatisfied demand and we already have a significant pipeline of opportunity, demonstrating encouraging progress to date. We expect all three new business streams to make a positive contribution to the Group during the course of the new financial year.

Conister Bank Limited

Net interest income grew by 26% to £10.83 million (2013: £8.61 million), leading to a 10% increase in net trading income to £6.02 million (2013: £5.46 million). Operating income grew by 11% to £6.15 million (2013: £5.54 million). Personnel and other costs reduced by 10% to £4.79 million (2013: £5.31 million). As a result, profit before tax increased by almost 400% to £1.02 million (2013: £0.21 million). This result was driven by a combination of improved lending through our wholesale funding partnerships, our interest rate strategy of locking in low cost of funds over the longer term, and by the prudent control of costs.

We continue to take a conservative approach to lending as evidenced by the 30% reduction in impaired loans to £3.00 million (2013: £4.31 million). The introduction of wholesale funding arrangements which include a capital indemnity element provides an additional level of security against losses.

We continue to match our loan and deposit books without the need to make any behavioural adjustments. Whilst this is a very prudent approach, we believe the reduced risk of any adverse liquidity event provides a greater level of stability upon which to grow our deposit base. Our matched funding also continues to provide a partial hedge against any future rise in interest rates.

We continue to carry a VAT debtor of £589,000 in relation to an ongoing negotiation with the Isle of Man Government Customs & Excise Division (C&E). We have believed for a number of years that the VAT recovery rate for the business was neither fair nor reasonable and we have raised a number of queries in this regard with C&E. In parallel, there is a case being taken against HM Revenue & Customs by Volkswagen Financial Services (UK) which covers substantially the same issue and we have agreed with C&E to await the outcome of this case before proceeding with ours. Currently, the re-appeal for this case is scheduled for April 2015.

Edgewater Associates Limited

After a slow start to the year, driven mainly by Retail Distribution Review factors, the business returned a second half growth in profit pre-exceptional items of 12% to £0.18 million (2013: £0.16 million), a run rate of £0.36 million in a full year. Our strategy is to focus on renewal income to reduce earnings volatility. To achieve this, we continue to recruit and employ the most experienced IFAs and also to invest further in our IT platforms as part of the up-grading of our Group-wide systems.

We continue to look for additional IFA acquisitions to develop and consolidate this division of the Group's business. We have considered a number of potential targets and I hope to be able to announce some progress in the near future.

Conister Card Services Limited

We continue to look for ways to monetise our MasterCard® licence to issue pre-paid cards in the Isle of Man and the UK. Despite a number of pre-paid card issuing companies struggling to gain market share and attain profitability, we believe that we found a viable strategy for success. As a consequence, I hope to be able to announce further developments in this area shortly.

Outlook

It is clear that the banking and financial services landscape is reaching a major watershed in which the twin forces of regulatory reform and the development of financial technology will allow those players capable of reacting quickly to gain a competitive advantage.

In November 2014, the UK's Competition and Markets Authority announced that it would launch a full investigation into retail banking. This is a move that we welcome and that we hope will produce positive outcomes for businesses such as our own by evening out the competitive landscape.

The second strand is the benefit available to consumers following the digitisation of financial services. As I have already indicated, we see acquiring suitable technology as our key priority to allow us access to new distribution channels and enabling the provision of our services

digitally to customers 24/7. Banking and financial services are rapidly transforming from a people-intensive business to a data management business. We intend fully to embrace this change which will allow our staff to concentrate on maintaining and developing business relationships with enhanced customer services, both within our banking and our financial advice divisions. Only by doing so will we ensure we continue to deliver superior shareholder returns.

In 2014, the FCA initiated a review of every UK consumer credit license holder as a consequence of the responsibility for regulation moving from the Office of Fair Trading. The renewal process for FCA-approved consumer lending will commence in 2015.

Thus the outlook for the Group remains very promising for 2015. I anticipate that the trend of increasing profits will continue in the year to come. In addition, and as I mention above, we continue to seek suitable potential acquisitions for the banking and financial services divisions that are both priced fairly and will add additional profitability to our operations.

Finally, I would like to take this opportunity to thank both you, our shareholders, and our staff alike for their continued support of the Group and also remind you that 2015 will be the year that our principal subsidiary, Conister Bank, will have served the Isle of Man community continuously for 80 years – a notable achievement.

Jim Mellon

Executive Chairman
26 February 2015

Executive Directors



Jim Mellon (58) ‡
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 Bumbrae Group Limited which, in turn, indirectly holds approximately 17% 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 (63) ‡
Chief Executive Officer

Denham Eke is the Managing Director of Bumbrae Group Limited, a private international asset management company. He 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 (44) ‡
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 and 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 (50) ‡
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 (78) ‡
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



John Banks (46)
Non-Executive Director

John Banks is a solicitor qualified in both England and Wales and Hong Kong. He has worked in private practice with Lovells, in both England and Hong Kong and as an in house counsel for Standard Chartered Bank in Hong Kong. He joined Group Direct Limited, later part of Brightside Group PLC as group legal counsel in 2006, where he worked on the group's admission to trading on AIM. He joined Southern Rock Insurance Company Limited and Eldon Insurance Services Limited in 2013 and is a director of both companies.

Appointment

Appointed to the Board on 5 August 2014.



Alan Clarke (64) ‡†*
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 was 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 (67) ‡†*
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

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Registered Agent
CW Corporate Services Limited
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Representation 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 2014.

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 section 7 of the Financial Services Act 2008. 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), (6) 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 18. The Directors do not recommend the payment of a dividend (2013: 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 9 February 2015 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	10,509,537	10.30
Island Farms Limited	4,222,319	4.14

¹ Together with other holdings, Arron Banks, a former Director of the Group, is beneficially interested in 30,339,825 ordinary shares (29.72%) of these 2,336,833 ordinary shares are held by Rene Nominees (IOM) Ltd in trust for Mr Arron Banks, his underage children and Mr John Banks' underage children.

The Directors are not aware of any other individual holding of greater than 3% as at 9 February 2015.

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:

John Banks was appointed on 5 August 2014.

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

	Number 31/12/14	Number 31/12/13
Jim Mellon ¹	17,635,332	17,635,332
John Banks ²	2,336,833	N/A
David Gibson ³	1,400,000	1,300,000
Douglas Grant	505,821	680,821
Don McCrickard ⁴	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 Jim Mellon. Denham Eke, CEO of MFG, is also a director of Burnbrae Limited. Pershing Nominees Limited holds 968,666 Ordinary Shares and Vidacos Nominees holds 666,666 Ordinary Shares in trust for Jim Mellon.

² Comprises 2,336,833 Ordinary Shares held by Rene Nominees (IOM) Ltd in trust for Mr John Bank's underage children and Mr Arron Banks and his underage children.

³ Comprises 1,400,000 Ordinary Shares held by TD Direct Investing Nominees (Europe) Limited in trust for David Gibson.

⁴ Comprises 66,666 Ordinary Shares held by Hargreaves Lansdown (Nominees) Limited in trust for Don McCrickard.

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

	Number 31/12/14	Number 31/12/13
Douglas Grant	1,042,466	342,466
Juan Kelly	700,000	-

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 2014 there were 56 members of staff (2013: 54), of whom 6 were part-time (2013: 6).

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.

Report on Corporate Governance

As an Isle of Man registered company there is no requirement to produce a corporate governance report. However, the Board follows best practice and therefore has prepared such a report.

This report illustrates how the Group would comply with the principles set out in the UK Corporate Governance Code principles found in the UK Corporate Governance Code 2012 relating to corporate governance.

Remuneration Committee

The Remuneration Committee usually meets at least twice a year and comprises of two Non-executive Directors, with the Chairman of the Board, Chief Executive Officer, Head of Human Resources and external advisers attending by invitation when appropriate. It is chaired by Alan Clarke, and is responsible for determining the remuneration of the Chief Executive, the Chairman, the Executive Directors, the Company Secretary and other members of the management. Committee members do not take part in discussions concerning their own remuneration.

Nomination Committee

The Nomination Committee, which meets at least once a year, is comprised of the whole Board. It is chaired by Jim Mellon and is responsible for making recommendations to the Board on matters relating to the composition of the Board, including executive and non-executive director succession planning, the appointment of new directors and the election and re-election of directors.

The Role of the Board

Code Principle A.1: Every company should be headed by an effective board, which is collectively responsible for the long-term success of the company.

Group's Approach

The Group's Board is collectively responsible for the long-term success of the organisation. Its principal function is to determine the strategy and policies of MFG Group within an effective control framework which enables risk to be assessed and managed. The Board ensures that the necessary financial and human resources are in place for the Group to meet its objectives and that business and management performances are reviewed. Furthermore, the Board ensures that the Group operates within its constitution, relevant legislation and regulation and that proper accounting records and effective systems of business control are established, maintained, documented and audited.

There are at least four formal Board meetings each year. All Board members have the benefit, at the Group's expense, of liability insurance in respect of their responsibilities as Directors and have access to independent legal or other professional advice if required. The Board has a formal schedule of matters which are reserved for its consideration and it has established three committees to consider specific issues in greater detail, being the Group Audit, Risk and Compliance, Remuneration and Nomination Committees. The Terms of Reference for each of these committees is published on the Group's website.

Group Audit, Risk and Compliance Committee

The Group Audit, Risk and Compliance Committee meets at least three times each year and comprises two Non-executive Directors, currently Alan Clarke (Chairman) and David Gibson. The Executive Directors and representatives from the internal and external auditors attend by invitation. Its role is responsible for reviewing the integrity of the financial statements and the balance of information disclosed in the accompanying Directors' Report, to review the effectiveness of internal controls and risk management systems, to monitor and review the effectiveness of the internal audit function and to consider and recommend to the Board (for approval by the members) the appointment or re-appointment of the external auditor. The Committee reviews and monitors the external auditor's objectivity, competence, effectiveness and independence, ensuring that if they or their associates are invited to undertake non-audit work it will not compromise auditor objectivity and independence.

Division of Responsibilities

Code Principle A.2: There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

Group's Approach

The offices of Chairman and Chief Executive are distinct and held by different people. The role of each is set out in their respective job descriptions. The Chairman is responsible for leading the Board, ensuring its effectiveness in all aspects of its role, promoting a culture of openness of debate and communicating with the Group's members on behalf of the Board. The Chief Executive is responsible for managing the Group's business and operations within the parameters set by the Board.

The Chairman

Code Principle A.3: The Chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.

Group's Approach

The Chairman sets the direction of the Board and promotes a culture of openness and debate by facilitating the effective contribution of Non-executive Directors and ensuring constructive relations between Executive and Non-executive Directors. The Chairman also ensures that Directors receive accurate, timely and clear information.

The Board of Directors is committed to best practice in corporate governance. This report explains how the Group has regard to the principles in the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 and updated in September 2012 (the Code), which was the prevailing guidance for the year covered by this report.

Non-executive Directors

Code Principle A.4: As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.

Group's Approach

The Non-executive Directors are responsible for bringing independent judgement to the discussions held by the Board, using their breadth of experience and understanding of the business. Their key responsibilities are to constructively challenge and contribute to strategic proposals, and to monitor performance, resources, and standards of conduct, compliance and control, whilst providing support to executive management in developing the Group.

The Composition of the Board

Code Principle B.1: The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

Group's Approach

At the year end, the Board comprised four Non-executive Directors and four Executive Directors. All Non-executive Directors are considered by the Board to be independent in character and judgement and to have an appropriate balance of skills and experience. They are all also considered to be free of any relationship or circumstances which could materially interfere with the exercise of their judgement, impede the provision of constructive challenge to management and provide assistance with the development of strategy.

Appointments to the Board

Code Principle B.2: There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

Group's Approach

The principal purpose of the Nomination Committee is to undertake the assessment of the balance of skills, experience, independence and knowledge on the Board against the requirements of the business, with a view to determining whether any shortages exist. Having completed the assessment, the Committee makes recommendations to the Board accordingly. Appointments to the Board are made on merit, with due regard to the benefits of diversity, including gender. Within this context, the paramount objective is the selection of the best candidate, irrespective of background, and it is the view of the Board that establishing quotas or targets for the diversity of the Board is not appropriate.

All Director appointments must be approved by the Company's Nominated Adviser, as required under the AIM Rules, before they are appointed to the Board.

Commitment

Code Principle B.3: All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

Group's Approach

Prior to appointment Non-executive Directors are required to demonstrate that they are able to allocate sufficient time to undertake their duties.

Development

Code Principle B.4: All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

Group's Approach

All new Directors undergo formal induction with any training or development needs being identified during this process. Directors continue to attend external and internal seminars and presentations to maintain and update their knowledge and skills.

Information and Support

Code Principle B.5: The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Group's Approach

The Chairman ensures that the Board receives accurate, timely and clear information in a form and of sufficient quality to enable it to fulfil its responsibilities.

All Directors have access to the advice and services of the Secretary who is responsible for ensuring compliance with all Board procedures and advising the Board on governance matters.

Evaluation

Code Principle B.6: The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

Group's Approach

An internal process exists to evaluate, on an annual basis, the performance and effectiveness of individual Directors and of the Board and its committees. The Non-executive Directors are evaluated by the Chairman, taking into account the views of other Directors. Executive Directors are evaluated in accordance with the appraisal framework for Group employees generally with the Chief Executive's appraisal being conducted by the Chairman, after taking into account the views of other Directors and his immediate subordinates.

Re-election

Code Principle B.7: All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

Group's Approach

The Group's Rules require that all Directors are submitted for election at the AGM following their first appointment to the Board and one third of the Directors are subject to retirement by rotation on an annual basis and one third of the directors shall retire from office by rotation. As stated above, the Nomination Committee is responsible for recommending to the Board whether an individual should be submitted for re-election.

Financial and Business Reporting

Code Principle C.1: *The board should present a fair, balanced and understandable assessment of the company's position and prospects.*

Group's Approach

The Board confirms that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. The responsibilities of the Directors in relation to the preparation of the Group's accounts are set out on page 12. The Chairman's Review on pages 2 and 3 provide a detailed review of the Group's business activities and future prospects.

Risk Management and Internal Control

Code Principle C.2: *The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.*

Group's Approach

The Board is responsible for determining a framework for risk management and control, to include the Group's risk appetite and tolerance. Senior management are responsible for designing, operating and monitoring risk management and internal control processes in line with the risk appetite and tolerance while the Group Audit Risk & Compliance Committee, on behalf of the Board, are responsible for reviewing the adequacy and effective operation of these processes. The role of the Group Audit, Risk and Compliance Committee is described previously, and provides the Board with independent assurance that the Group is operating specifically in accordance with the risk appetite parameters determined and approved by the Board and to ensure that the outcomes for the Group's various activities are in line with those parameters.

The system of internal control overall is designed to enable the Group to achieve its corporate objectives within the Board's pre-determined risk appetite, not to eliminate risk. The internal audit function, performed in-house, provides independent and objective assurance that these processes are appropriate and effectively applied.

Audit Committee and Auditors

Code Principle C.3: *The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.*

Group's Approach

At the end of the year the Group Audit, Risk and Compliance Committee comprised of two Non-executive Directors. The Chairman of the Board is not a member of the Committee. The Board is satisfied that the Committee is comprised of members with recent relevant financial experience who are capable of discharging their duties and responsibilities. The role of the Committee is to review the integrity of the financial statements and the balance of information disclosed in the accompanying Directors' Report, to review the effectiveness of internal controls and risk management systems, to monitor and review the effectiveness of the internal audit function and to consider and recommend to the Board (for approval by the members) the

appointment or re-appointment of the external auditor. The Committee reviews and monitors the external auditor's objectivity, competence, effectiveness and independence, ensuring that if they or their associates are invited to undertake non-audit work it will not compromise auditor objectivity and independence. The activities of the Group's internal audit function, which is undertaken in-house, are overseen by the Executives and have direct access to the Committee Chairman.

Remuneration

Code Principle D.1: *Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.*

Code Principle D.2: *There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.*

Group's Approach

The Report on Directors' Remuneration, prepared by the Chairman of the Group's Remuneration Committee, is to be found on pages 10 and 11 and explains how the Group complies with the Code Principles relating to remuneration. Details of Directors' Emoluments during 2014 can be found on page 11.

Dialogue with Shareholders

Code Principle E.1: *There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.*

Group's Approach

The Group is owned by both individual and institutional shareholders. All shareholders are kept informed of developments and feedback is encouraged both at the AGM and through communication on the Group's website.

Constructive Use of the AGM

Code Principle E.2: *The board should use the AGM to communicate with investors and to encourage their participation.*

Group's Approach

Each year the Group sends details of the AGM, including appointment of proxy and voting forms, to members who are eligible to vote.

Approval

This report was approved by the Board of Directors on 26 February 2015 and signed on its behalf by:

Jim Mellon

Executive Chairman
26 February 2015

Report on Directors' Remuneration

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.

This report illustrates how the Group would comply with the principles set out in the UK Corporate Governance Code principles found in the UK Corporate Governance Code 2012 relating to Directors' remuneration. The Group has adopted a Remuneration Policy. This Policy is reviewed periodically by the Remuneration Committee.

The Level and Components of Executive Director Remuneration *Code Principle D.1:*

Levels of remuneration should be sufficient to attract, retain and motivate Directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of Executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Group's Approach:

The Group's remuneration policy reflects the Group's business strategy and objectives as well as sustained and long-term value creation for shareholders. In addition, the policy aims to be fair and provide equality of opportunity, ensuring that:

- The Group is able to attract, develop and retain high-performing and motivated employees in the competitive local and wider UK markets;
- employees are offered a competitive remuneration package to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contribution to the success of the Group;
- reflects our culture and values; and that
- there is full transparency of the Group's remuneration policy.

In line with the Board's approach, which reflects that adopted within other comparable organisations, the Group's remuneration policy provides for the reward of Executive Directors through salaries and other benefits.

Executive Directors' Emoluments

The remuneration for Executive Directors reflects their responsibilities. It comprises basic salary, performance related variable pay when this is considered appropriate, and various benefits detailed below.

Performance related payments are not pensionable.

As with staff generally, whose salaries are subject to annual reviews, basic salaries payable to Executive Directors are reviewed each year with reference to jobs carrying similar responsibilities in comparable financial organisations, market conditions generally and local employment competition in view of the Group's geographical position.

The Group operates a non-contractual discretionary annual performance related pay scheme based on the trading performance of the Group and the individual employee's performance assessed for the period under review in a manner which promotes sound risk management and does not promote excess risk taking. The non-contractual discretionary annual performance related pay scheme may be paid in one year but that does not confer any entitlement in future years.

Performance assessments are conducted annually to determine the performance rating of each employees' achievements against a mix targets set and agreed at the beginning of each year between the employee and their manager. No incentives are paid to employees or executives where the performance rating reflects below an agreed expected level for the role employed.

The non-contractual discretionary annual performance related pay scheme may be disbursed as a cash bonus through payroll, share based instruments (including share options) or a mixture of both. An element of deferment to align the interests of the employee to the longer term performance of the Group may also be included.

Financial Advisors are salaried and commission is calculated on a pre-agreed percentage over target which is set at between 2 to 3 times annual gross salary depending on the size of the Advisor's client base and their historical performance. Each Financial Advisor is set objectives at the beginning of the year including a 100% pass or pass with learning on their file checks. Where indemnified commission is paid and the underlying client policy lapses and the commission is clawed back then this is reviewed by an Executive Director in order to monitor trends and is then clawed back from the relevant Financial Advisor.

Where the Group operates a contractually guaranteed performance bonus scheme, the contractual conditions must be considered by the Remuneration Committee.

Executive Directors' Contractual Terms

In keeping with current recommended practice, the standard terms for Executive Director appointments include a contractual notice period of 6 months by the Executive Director.

Non-executive Directors' Remuneration

Non-executive Directors do not receive any benefits other than their fees and travelling expenses for which they are reimbursed. The level of fees payable to Non-executive Directors is assessed using benchmarks from a group of comparable financial organisations.

The Procedure for Determining Remuneration

Code Principle D.2: *There should be a formal and transparent procedure for developing policy on Executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration.*

Group's Approach:

The Remuneration Committee, comprising two Non-executive Directors, is responsible for setting the remuneration of the Executive Directors and is chaired by Alan Clarke. The Committee also sets the additional payments for the Chairman of the Board, with Committee members not taking part in discussions concerning their own remuneration. The basic Non-executive Director fee is set by the Executive Directors. The Chairman of the Committee usually reports at the Board meeting following a Committee meeting.

It is the view of the Committee that Directors' remuneration for the year has been in accordance with the Group's stated Remuneration Policy and on behalf of the Committee, I recommend that you endorse this report. An analysis of Directors' emoluments is as follows:

Directors' emoluments

	Remuneration/ Fees £	Performance Related Pay £	Pension £	2014 Total £	2013 Total £
Executives					
Denham Eke	25,000	-	-	25,000	25,000
Douglas Grant	140,619	30,000	14,135	184,754	164,407
Juan Kelly	146,192	30,000	14,693	190,885	171,784
Jim Mellon	25,000	-	-	25,000	25,000
Non-Executives					
John Banks ¹	10,417	-	-	10,417	-
Alan Clarke	37,500	-	-	37,500	37,500
David Gibson	37,500	-	-	37,500	37,500
Don McCrickard	37,500	-	-	37,500	37,500
Aggregate emoluments	459,728	60,000	28,828	548,556	595,155

¹ John Banks was appointed on 5 August 2014.

Approval

This report was approved by the Board of Directors on 26 February 2015 and signed on its behalf by:

Alan Clarke

Chairman of the Remuneration Committee
26 February 2015

Manx Financial Group PLC

Statement of Directors' Responsibilities

in respect of the Directors' Report and the financial statements

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The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. In addition, the Directors, as required by AIM, 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 2014 which comprise the Consolidated Income Statement, Consolidated Statement of Other Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated Statement of Cash Flows and the Consolidated 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 12, 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 2014 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 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 was delayed by HMRC pending reference to a relevant European Court of Judgement in the case of Banco Mais (C183/13). The judgement in this case was released on 10 July 2014 and ruled against the taxpayer; however the impact of the judgement on the VWFS case is unclear and the VWFS is still proceeding with the appeal to the Court of Appeal. The re-appeal is now scheduled for April 2015.

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 2014 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

26 February 2015

Manx Financial Group PLC

Consolidated Income Statement

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For the year ended 31 December	Notes	2014 £000	2013 £000
Interest income	6	13,634	10,750
Interest expense	10	(2,809)	(2,493)
Net interest income		10,825	8,257
Fee and commission income		1,276	1,399
Loss on joint venture	19	(2)	-
Fee and commission expense		(1,102)	(990)
Commission share schemes	3(t)	(3,749)	(2,249)
Net trading income		7,248	6,417
Other operating income		97	163
Operating income		7,345	6,580
Personnel expenses		(2,931)	(2,863)
Other expenses	7	(1,950)	(1,657)
Provision for impairment on loan assets	8	(550)	(850)
Depositors' Compensation Scheme recovery	9	11	100
Depreciation	18	(228)	(252)
Realised gains on available for sale financial assets	16	32	18
Unrealised loss on financial assets carried at fair value	15	(1)	(3)
Profit before tax (payable) / recovery	10	1,728	1,073
Tax (payable) / recovery	11	(139)	14
Profit for the year		1,589	1,087
Basic earnings per share (pence)	12	1.56	1.12
Diluted earnings per share (pence)	12	0.98	0.78

The notes on pages 19 to 46 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	2014 £000	2013 £000
Other comprehensive income:			
Items that will be reclassified to profit or loss			
Available for sale gains taken to equity	16	6	10
Items that will never be reclassified to profit or loss			
Actuarial losses on defined benefit pension scheme taken to equity	24	<u>(173)</u>	<u>(53)</u>
Total comprehensive income for the period attributable to owners		<u>1,422</u>	<u>1,044</u>
Basic earnings per share (pence)	12	1.39	1.08
Diluted earnings per share (pence)	12	0.89	0.76

The notes on pages 19 to 46 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	
		2014 £000	2013 £000	2014 £000	2013 £000
Assets					
Cash and cash equivalents	14	6,123	4,183	-	-
Financial assets at a fair value through profit or loss	15	47	48	-	-
Available for sale financial instruments	16	18,775	9,000	-	-
Loans and advances to customers	17	89,338	75,819	-	-
Commissions receivable		326	289	-	-
Property, plant and equipment	18	605	629	-	-
Investment in Group undertakings	19	-	-	12,072	12,072
Amounts due from Group undertakings	19	-	-	350	76
Trade and other receivables	20	1,166	1,014	62	130
Investment in joint venture	19	499	-	-	-
Subordinated loan	19	-	-	3,900	2,000
Deferred tax asset	11	284	394	-	-
Goodwill	19	2,344	2,344	-	-
Total assets		119,507	93,720	16,384	14,278
Liabilities					
Customer accounts	21	100,259	78,115	-	-
Creditors and accrued charges	22	1,715	754	20	9
Amounts owed to Group undertakings	19	-	-	2,421	1,848
Loan notes	23	7,165	6,065	7,165	6,065
Pension liability	24	388	252	-	-
Total liabilities		109,527	85,186	9,606	7,922
Equity					
Called up share capital	25	18,933	18,933	18,933	18,933
Profit and loss account		(8,953)	(10,399)	(12,155)	(12,577)
Total equity		9,980	8,534	6,778	6,356
Total liabilities and equity		119,507	93,720	16,384	14,278

The financial statements were approved by the Board of Directors on 26 February 2015 and signed on its behalf by:

Jim Mellon
Executive Chairman

Denham Eke
Chief Executive Officer

Douglas Grant
Group Finance Director

The notes on pages 19 to 46 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	2014 £000	2013 £000
RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS			
Profit before tax on continuing activities		1,728	1,073
Unrealised loss on financial assets carried at fair value		1	3
(Gain) / loss on disposal of property, plant and equipment		(5)	17
Loss on joint venture		2	-
Depreciation charge	18	228	252
Realised gains on available for sale investments		(32)	(18)
Actuarial loss on defined benefit pension scheme taken to equity	24	(173)	(53)
Pension liability	24	136	52
Share-based payment expense / (credit)	25	24	(50)
(Increase) / decrease in trade and other receivables		(152)	238
Increase / (decrease) in trade and other payables		934	(1,408)
(Increase) / decrease in commission debtors		(37)	23
		<hr/>	<hr/>
Net cash inflow from trading activities		2,654	129
Increase in loans and advances to customers		(13,519)	(17,324)
Increase in deposit accounts		22,144	14,384
		<hr/>	<hr/>
Cash inflow / (outflow) from operating activities		11,279	(2,811)
CASH FLOW STATEMENT			
Cash flows from operating activities			
Cash inflow / (outflow) from operating activities		11,279	(2,811)
Taxation paid		-	-
		<hr/>	<hr/>
Net cash inflow / (outflow) from operating activities		11,279	(2,811)
Cash (outflow) / inflow from investing activities			
Purchase of property, plant and equipment	18	(208)	(156)
(Purchase) / sale of available for sale financial instruments	16	(9,737)	3,512
Sale of property, plant and equipment		7	-
Investment in joint venture	19	(501)	-
Payment of deferred consideration		-	(335)
		<hr/>	<hr/>
Net cash (outflow) / inflow from investing activities		(10,439)	3,021
Cash flows from financing activities			
Issue of loan notes	23	1,100	2,055
		<hr/>	<hr/>
Net cash inflow from financing activities		1,100	2,055
		<hr/>	<hr/>
Increase in cash and cash equivalents		1,940	2,265
Included in cash flows are:			
Interest received – cash amounts		13,360	9,072
Interest paid – cash amounts		(2,802)	(2,101)
Significant non-cash flows in the year			
Conversion of loan notes to share capital		-	500

The notes on pages 19 to 46 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	2014 £000	2013 £000
Balance as at 1 January	18,933	(10,399)	8,534	7,215
Profit for the year	-	1,589	1,589	1,087
Other comprehensive income	-	(167)	(167)	(43)
Transactions with owners:				
Shares issued	-	-	-	500
Shares to be issued	-	-	-	(175)
Share-based payment credit / (expense) (see note 25)	-	24	24	(50)
Balance as at 31 December	18,933	(8,953)	9,980	8,534

For the year ended 31 December Company	Share Capital £000	Retained Earnings £000	2014 £000	2013 £000
Balance as at 1 January	18,933	(12,577)	6,356	5,649
Profit for the year	-	398	398	432
Transactions with owners:				
Shares issued	-	-	-	500
Shares to be issued	-	-	-	(175)
Share-based payment credit / (expense) (see note 25)	-	24	24	(50)
Balance as at 31 December	18,933	(12,155)	6,778	6,356

The notes on pages 19 to 46 form part of these financial statements.

1. Reporting entity

Manx Financial Group PLC is a company incorporated in the Isle of Man. The consolidated financial statements of Manx Financial Group PLC (the "Company") for the year ended 31 December 2014 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 ("IFRS") as adopted by the European Union (EU) and International Financial Reporting Interpretations Committee (IFRIC) interpretations applicable to companies reporting under IFRS, including International Accounting Standards ("IAS").

The Group has continued to apply the accounting policies used for the 2013 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 2014.

- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*
- *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)*
- *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)*
- *Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)*
- *IFRIC 21 Levies*

No significant changes followed the implementation of these standards and amendments.

(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.

Manx Financial Group PLC

Notes to the Consolidated Financial Statements

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3. Significant accounting policies

(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.

(c) Property, plant and equipment

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

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

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

Depreciation

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

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

(d) Financial assets

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

Loans and receivables

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

Loans are recognised when cash is advanced to the borrowers. Loans and receivables are carried at amortised cost using the effective interest rate method with all movements being recognised in the 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, loan notes 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 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) Current and deferred taxation

Current taxation relates to the estimated corporation tax payable in the current financial year. 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 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.

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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)
<i>Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)</i>	1 July 2014
<i>Annual Improvements to IFRSs 2010 - 2012 Cycle</i>	1 July 2014
<i>Annual Improvements to IFRSs 2011 - 2013 Cycle</i>	1 July 2014
<i>IFRS 14 Regulatory Deferral Accounts</i>	1 January 2016
<i>Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)</i>	1 January 2016
<i>Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)</i>	1 January 2016
<i>Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)</i>	1 January 2016
<i>Equity Method in Separate Financial Statements (Amendments to IAS 27)</i>	1 January 2016
<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)</i>	1 January 2016
<i>Annual Improvements to IFRSs 2012 - 2014 Cycle - various standards</i>	1 January 2016
<i>IFRS 15 Revenue from Contracts with Customers</i>	1 January 2017
<i>IFRS 9 Financial Instruments</i>	1 January 2018

The Directors do not expect the adoption of the standards and interpretations to have a material impact on the Group's financial statements in the period of initial application with the exception of IFRS 9 Financial Instruments.

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances.

(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 and goodwill. 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. An impairment review is performed annually for goodwill at different discount rates to allow for any uncertainty.

(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.

3. Significant accounting policies (continued)

(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.

(u) Joint ventures

Investments in joint ventures are initially recognised at cost. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Joint ventures are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of the equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until it ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Unrealised gains on transactions between the Company and its equity accounted investees are eliminated to the extent of the Company's interest in the equity accounted investees. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investments in joint ventures and associates are kept under review for impairment. Where, in the opinion of the Directors, the net realisable value of an investment falls below the carrying value, a provision is made against the investment and charged to the income statement.

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").

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4. Risk and capital management (continued)

(a) Risk management (continued)

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 Hire Purchase 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.

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, lending caps and 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:

	2014 £000	2013 £000
Carrying amount	89,338	75,819
Individually impaired ¹		
Grade A	-	-
Grade B	-	-
Grade C	3,043	4,305
Gross value	3,043	4,305
Allowance for impairment	(1,754)	(3,578)
Carrying value	1,289	727
Collective allowance for impairment	(51)	(179)
Past due but not impaired		
Less than 1 month	712	24
1 month but less than 2 months	1,001	123
2 months but less than 3 months	305	48
3 months and over	371	1,404
Carrying value	2,389	1,599
Neither past due nor impaired	85,711	73,672

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, finances 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 Isle of Man or United Kingdom addresses.

Segmental

The Group is exposed to credit risk with regard to customer loan accounts, comprising Hire Purchase 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.

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4. Risk and capital management (continued)

(a) Risk management (continued)

i) 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 2014	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	1,865	2,429	2,646	4,282	35,498	36,904	21,791	-	105,415
Other liabilities	1,725	29	1,028	346	489	4,173	1,990	388	10,168
Total liabilities	3,590	2,458	3,674	4,628	35,987	41,077	23,781	388	115,583

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

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 2014	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	6,123	-	-	-	-	-	-	-	6,123
Available for sale financial instruments	-	2,000	10,789	5,986	-	-	-	-	18,775
Customer accounts receivable	166	2,681	6,519	9,061	17,107	40,478	13,138	188	89,338
Commission debtors	29	80	217	-	-	-	-	-	326
Other assets	47	-	-	-	-	-	-	4,898	4,945
Total assets	6,365	4,761	17,525	15,047	17,107	40,478	13,138	5,086	119,507
Liabilities									
Customer accounts	1,861	2,427	2,639	4,250	34,936	34,851	19,295	-	100,259
Other liabilities	1,715	-	960	250	300	3,750	1,905	388	9,268
Total liabilities	3,576	2,427	3,599	4,500	35,236	38,601	21,200	388	109,527

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

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4. Risk and capital management (continued)

(a) Risk management (continued)

ii) 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.

iii) 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 2014 and 2013, 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 £47,000 at 31 December 2014 (2013: £48,000) 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.

31 December 2014	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	6,123								6,123
Available for sale financial instruments	2,000	10,789	5,986	-	-	-	-	-	18,775
Customer accounts receivable	2,847	6,519	9,061	17,107	40,478	13,138	188	-	89,338
Commission debtors	-	-	-	-	-	-	-	326	326
Other assets	-	-	-	-	-	-	-	4,945	4,945
Total assets	10,970	17,308	15,047	17,107	40,478	13,138	188	5,271	119,507
Liabilities									
Customer accounts	1,861	2,427	2,639	4,250	34,936	34,851	19,295	-	100,259
Other liabilities	-	-	960	250	300	3,750	1,905	2,103	9,268
Total capital and reserves	-	-	-	-	-	-	-	9,980	9,980
Total liabilities and equity	1,861	2,427	3,599	4,500	35,236	38,601	21,200	12,083	119,507
Interest rate sensitivity gap	9,109	14,881	11,448	12,607	5,242	(25,463)	(21,012)	(6,812)	-
Cumulative	9,109	23,990	35,438	48,045	53,287	27,824	6,812	-	-

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

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
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	-	-

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 (2013: 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 2014	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	9,109	14,881	11,448	12,607	5,242	(25,463)	(21,012)	(6,812)	-
Weighting	0.000	0.003	0.007	0.014	0.027	0.054	0.115	0.000	-
£000	-	45	80	177	142	(1,375)	(2,416)	-	(3,347)

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)

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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 2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment securities				
Government bonds	18,775	-	-	18,775
Equities	47	-	-	47
	18,822	-	-	18,822

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 2014	Level 1 £000	Level 2 £000	Level 3 £000	Total fair values £000	Total carrying amount £000
Assets					
Cash and cash equivalents	-	6,123	-	6,123	6,123
Loans and advances to customers	-	89,338	-	89,338	89,338
Commissions receivable	-	326	-	326	326
Trade and other receivables	-	1,167	-	1,167	1,167
	-	96,954	-	96,954	96,954
Liabilities					
Customer accounts	-	100,259	-	100,259	100,259
Creditors and accrued charges	-	1,715	-	1,715	1,715
Loan notes	-	7,165	-	7,165	7,165
	-	109,139	-	109,139	109,139

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 2014	Asset and Personal Finance £000	Litigation Finance £000	Conister Card Services £000	Wealth Management £000	Investing Activities £000	Total £000
Net interest income	10,825	-	-	-	-	10,825
Operating income	8,492	-	(108)	1,255	-	7,345
Profit/(loss) before tax (expense) / recovery	1,733	45	(150)	146	(46)	1,728
Capital expenditure	183	-	-	25	-	208
Total assets	118,515	-	106	824	62	119,507

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5. Segmental analysis (continued)

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 tax recovery	1,165	(214)	14	276	(168)	1,073
Capital expenditure	156	-	-	-	-	156
Total assets	92,044	677	220	649	130	93,720

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

	2014 £000	2013 £000
Professional and legal fees	496	281
Marketing costs	131	122
IT costs	348	298
Establishment costs	355	502
Communication costs	71	48
Travel costs	72	94
Bank charges	71	77
Insurance	111	97
Irrecoverable VAT	206	(41)
Other costs	89	179
	1,950	1,657

8. Allowance for impairment

The charge in respect of specific allowances for impairment comprises:

	2014 £000	2013 £000
Specific impairment allowances made	890	1,249
Reversal of allowances previously made	(212)	(416)
Total charge for specific provision for impairment	678	833

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

	2014 £000	2013 £000
Collective impairment allowances made	23	17
Release of allowances previously made	(151)	-
Total (credit) / charge for collective allowances for impairment	(128)	17
Total charge for allowances for impairment	550	850

9. Depositors' Compensation Scheme

	2014	2013
	£000	£000
Provision in respect of the Isle of Man Government Depositors' Compensation Scheme	11	100

On 27 May 2009, Kaupthing Singer & Friedlander (Isle of Man) Limited activated the Isle of Man Government Depositors' Compensation Scheme (the Scheme) in connection with its liquidation. Three payments of £73,880 were made in to the Scheme. Repayments from the Financial Supervision Commission of £133,506 and £34,424 have been received and a further £53,710 is expected from the Scheme.

10. Profit before tax (payable) / recovery

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

	2014	2013
	£000	£000
Interest expense payable to depositors	2,360	2,136
Interest expense payable on loan notes	449	357
(Profit) / loss on sale of fixed assets	(5)	17
Share options expense / (credit)	24	(50)
Directors' remuneration	286	325
Directors' fees	179	163
Directors' pensions	29	32
Directors' bonuses	60	30
Auditors' remuneration: as Auditors current year	85	72
non-audit services	26	18
Pension cost defined contribution scheme	12	9
Operating lease rentals for property	213	331

11. Tax expense

	2014	2013
	£000	£000
Current tax expense		
Current year	29	-
Deferred tax expense		
Origination and reversal of temporary differences	12	(39)
Utilisation of previously recognised tax losses	123	50
Changes to estimates for prior years	(25)	(25)
	110	(14)
Total tax expense / (recovery)	139	(14)

		2014		2013
		£000		£000
Reconciliation of effective tax rate				
Profit before tax on continuing operations		1,728		1,073
Tax using the Banking division's domestic tax rate	10.0%	173	10.0%	107
Effect of tax rates in foreign jurisdictions	0.9%	12	-	-
Non-deductible expenses	2.3%	40	40.1%	43
Tax exempt income	(3.3)%	(58)	(79.4)%	(85)
Timing differences in current year	(0.9)%	(15)	(14.0)%	(15)
Origination and reversal of temporary differences in deferred tax	0.6%	12	(36.4)%	(39)
Changes to estimates for prior years	(1.5)%	(25)	(23.4)%	(25)
Total tax expense	8.1%	139	(13.1)%	(14)

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11. Tax expense (continued)

The main rate of corporation tax in the Isle of Man is 0% (2013: 0%). However the profits of the Group's Manx banking activities are taxed at 10% (2013: 10%). The profits of the Group's subsidiaries that are subject to UK corporation tax are taxed at a rate of 21.5% (2013: 20%).

The value of tax losses carried forward and timing differences reduced to £284,000 (2013: £394,000) and resulted in an expense of £110,000 (2013: £14,000 credit) to the income statement.

12. Earnings per share

	2014	2013
Profit for the year	£1,589,000	£1,087,000
Weighted average number of ordinary shares in issue	102,070,252	96,899,019
Basic earnings per share	1.56p	1.12p
Diluted earnings per share	0.98p	0.78p
Total comprehensive income for the period	£1,422,000	£1,044,000
Weighted average number of ordinary shares in issue	102,070,252	96,899,019
Basic earnings per share	1.39p	1.08p
Diluted earnings per share	0.89p	0.76p

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

The diluted earnings 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 £398,000 (2013: £432,000).

14. Cash and cash equivalents

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Cash at bank and in hand	6,123	4,137	-	-
Short-term deposits	-	46	-	-
	6,123	4,183	-	-

Cash at bank includes an amount of £25,000 (2013: £241,699) representing receipts which are in the course of transmission.

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

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Less than 8 days	-	46	-	-
	-	46	-	-

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	
	2014 £000	2013 £000	2014 £000	2013 £000
UK Government Treasury Bills	18,775	9,000	-	-
	<u>18,775</u>	<u>9,000</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	2014			2013		
	Gross Amount £000	Impairment Allowance £000	Carrying Value £000	Gross Amount £000	Impairment Allowance £000	Carrying Value £000
Hire Purchase balances	52,059	(881)	51,178	46,222	(813)	45,409
Finance lease balances	11,422	(714)	10,708	8,882	(707)	8,175
Litigation funding	-	-	-	2,164	(1,487)	677
Unsecured personal loans	3,514	(148)	3,366	3,815	(306)	3,509
Vehicle stocking plans	1,284	-	1,284	1,476	-	1,476
Block discounting	6,766	-	6,766	5,192	-	5,192
Secured commercial loans	7,347	(62)	7,285	6,991	(435)	6,556
Secured personal loans	8,751	-	8,751	4,834	(9)	4,825
	<u>91,143</u>	<u>(1,805)</u>	<u>89,338</u>	<u>79,576</u>	<u>(3,757)</u>	<u>75,819</u>

Collateral is held, in the form of underlying assets, for Hire Purchase, finance leases, vehicles stocking plans, block discounting, secured commercial and personal 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.

	2014 £000	2013 £000
Specific allowance for impairment		
Balance at 1 January	3,578	4,150
Specific allowance for impairment made	890	460
Release of allowances previously made	(212)	-
Write-offs	(2,502)	(1,032)
Balance at 31 December	<u>1,754</u>	<u>3,578</u>

	2014 £000	2013 £000
Collective allowance for impairment		
Balance at 1 January	179	162
Collective allowance for impairment made	23	17
Release of allowances previously made	(151)	-
Balance at 31 December	<u>51</u>	<u>179</u>
Total allowances for impairment	<u>1,805</u>	<u>3,757</u>

Advances on preferential terms are available to all Directors, management and staff. As at 31 December 2014 £125,983 (2013: £93,187) 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.

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17. Loans and advances to customers (continued)

As detailed below, at the end of the current financial year two loan exposures exceeded 10% of the capital base of the Group (2013: two loan exposures).

Exposure	Outstanding Balance 2014 £000	Outstanding Balance 2013 £000	Facility limit £000
Block discounting facility	3,501	2,229	5,500

Hire Purchase and finance lease receivables

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

	2014 £000	2013 £000
Less than one year	30,615	25,495
Between one and five years	50,456	42,754
Gross investment in Hire Purchase and finance lease receivables	81,071	68,249

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

	2014 £000	2013 £000
Less than one year	22,514	19,540
Between one and five years	40,967	35,564
Net investment in Hire Purchase and finance lease receivables	63,481	55,104

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 2014	182	1,081	600	84	1,947
Additions	-	182	-	26	208
Disposals	-	-	-	(30)	(30)
As at 31 December 2014	182	1,263	600	80	2,125
Accumulated depreciation					
As at 1 January 2014	38	714	488	78	1,318
Charge for year	18	179	22	9	228
Disposals	-	-	-	(26)	(28)
As at 31 December 2014	56	893	510	61	1,520
Carrying value at 31 December 2014	126	370	90	19	605
Carrying value at 31 December 2013	144	367	112	6	629

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 2014 % Holding	Date of Incorporation	Total 2014 £000	Total 2013 £000
Conister Bank Limited	Asset and Personal Finance	100	05/12/1935	10,067	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
				12,072	12,072

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

Subordinated loans

MFG has issued several subordinated loans as part of its equity funding into the Bank. Interest charged is at the discretion of the lender.

Creation	Maturity	Interest rate	Company 2014 £000	Company 2013 £000
22 July 2013	22 July 2018	7.00%	1,000	1,000
25 October 2013	22 October 2020	7.00%	1,000	1,000
11 February 2014	11 February 2024	7.00%	500	-
27 May 2014	27 May 2024	7.00%	500	-
9 July 2014	9 July 2024	7.00%	500	-
17 September 2014	17 September 2026	7.00%	400	-
Total subordinated loans			3,900	2,000

Goodwill

	Group 2014 £000	Group 2013 £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.

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19. Investment in Group undertakings (continued)

Goodwill impairment (continued)

There has been no change in the detailed method of measurement for EWA and ECF when compared to 2013. 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.

Investment in joint venture

On 7 August 2014, a joint venture agreement was entered into between Manx Financial Limited, previously a subsidiary of the Group, and Andrew Flowers. Additional shares were issued such that 49.9% of the voting share capital was sold for £500,000, creating £1,000 share premium in the company. Control was lost on this day and consequently the assets and liabilities of the subsidiary were derecognised. There was no profit or loss incurred upon ceding control. Manx Financial Group PLC has invested £501,000 for 50.1% of the voting share capital and has provided a corporate guarantee to block funders in Manx Financial Limited.

20. Trade and other receivables

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Prepayments and other debtors	646	471	62	130
Depositors Compensation Scheme Receivable	54	77	-	-
VAT recoverable	466	466	-	-
	1,166	1,014	62	130

Included in trade and other receivables is an amount of £466,000 (2013: £466,000) relating to a reclaim of value added tax ("VAT").

Conister Bank Limited, 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 ("VWFS") 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 was delayed by HMRC pending reference to a relevant European Court of judgement in the case of Banco Mais (C183/13). The judgement in this case was released on 10 July 2014 and ruled against the taxpayer; however the impact of the judgement on the VWFS case is unclear and the VWFS is still proceeding with the appeal to the Court of Appeal. The re-appeal is now scheduled for April 2015.

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

	2014 £000	2013 £000
Retail customers: term deposits	98,420	75,989
Corporate customers: term deposits	1,839	2,126
	<u>100,259</u>	<u>78,115</u>

22. Creditors and accrued charges

	Group		Company	
	2014 £000	2013 £000	2014 £000	2013 £000
Commission creditors	1,389	577	-	-
Other creditors and accruals	326	177	20	9
	<u>1,715</u>	<u>754</u>	<u>20</u>	<u>9</u>

23. Loan notes

		Group		Company	
	Notes	2014 £000	2013 £000	2014 £000	2013 £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	460	460	460
Copper Development Corporation	CDC	500	500	500	500
		<u>3,910</u>	<u>3,910</u>	<u>3,910</u>	<u>3,910</u>
Unrelated parties					
	UP	<u>3,255</u>	<u>2,155</u>	<u>3,255</u>	<u>2,155</u>
		<u>7,165</u>	<u>6,065</u>	<u>7,165</u>	<u>6,065</u>

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. JM is also entitled to 8.3 million warrants at an exercise price of 6 pence which lapse on 31 July 2017. See note 30 for an extension of this loan note subsequent to the year end.

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. BL is also entitled to 20 million warrants at an exercise price of 6 pence which lapse on 31 July 2017.

SR - One loan consisting of £460,000 maturing on 26 February 2015 with interest payable of 9% per annum. The loan is convertible at a rate of 9 pence. SR is also entitled to 8.3 million warrants at an exercise price of 6 pence which lapse on 24 October 2017. Arron Banks, a significant Shareholder, a non-executive Director, holds a major stake in SR. John Banks a non-executive Director is also a director of SR. See note 30 for an extension of this loan subsequent to the year end.

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.

UP - Fifteen loans consisting of an average £217,000, with an average interest payable of 5.33% per annum. The earliest maturity date is 28 April 2015 and the latest maturity is 14 July 2019.

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.

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 2014 (2013: 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.

24. Pension liability (continued)

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 2014.

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

	2014 £000	2013 £000
Total underfunding in funded plans recognised as a liability		
Fair value of plan assets	1,345	1,245
Present value of funded obligations	(1,733)	(1,497)
	<u>(388)</u>	<u>(252)</u>

	2014 £000	2013 £000
Movement in the liability for defined benefit obligations		
Opening defined benefit obligations at 1 January	1,497	1,427
Benefits paid by the plan	(62)	(66)
Interest on obligations	70	68
Actuarial loss	228	68
	<u>1,733</u>	<u>1,497</u>
Liability for defined benefit obligations at 31 December		

	2014 £000	2013 £000
Movement in plan assets		
Opening fair value of plan assets at 1 January	1,245	1,227
Expected return on assets	58	59
Contribution by employer	49	10
Actuarial gain	55	15
Benefits paid	(62)	(66)
	<u>1,345</u>	<u>1,245</u>
Closing fair value of plan assets at 31 December		

	2014 £000	2013 £000
Expense recognised in income statement		
Interest on obligation	70	68
Expected return on plan assets	(58)	(59)
	<u>12</u>	<u>9</u>
Total included in personnel costs		
Actual return on plan assets	113	74

	2014 £000	2013 £000
Expense recognised in other comprehensive income		
Actuarial gain on plan assets	55	15
Actuarial loss on defined benefit obligations	(228)	(68)
	<u>(173)</u>	<u>(53)</u>

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24. Pension liability (continued)

The actuarial assumptions used to calculate Scheme liabilities under IAS19 are as follows:	2014 %	2013 %	2012 %
Rate of increase in pension in payment: service up to 5 April 1997	-	-	-
service from 6 April 1997 to 13 September 2005	2.70	3.10	2.30
service from 14 September 2005	2.00	2.10	1.80
Rate of increase in deferred pensions	5.00	5.00	5.00
Discount rate applied to scheme liabilities	3.80	4.80	4.90
Inflation	2.80	3.20	2.25

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 2013 & 2014	150,000,000

Issued and fully paid: Ordinary shares of no par value	Number	£000
At 31 December 2013 & 2014	102,070,252	18,933

There are a number of convertible loans at 31 December 2014 of £3.41 million (2013: £3.41 million) involving warrants of 28.3 million (31 December 2013: 28.3 million) (see note 23 for further details). The total number of warrants in issue at 31 December 2014 is 36.6 million (2013: 36.6 million) (see note 23 for further details).

On 23 June 2014, 1.75 million share options were issued to Executive Directors and senior management within the Group at an exercise price of 14 pence. The options vest over three years with a charge based on the fair value of 8 pence per option at the date of grant.

Share options

Share option reserve	No of Shares 000	Value £000
As at 31 December 2013	1,056	118
Grant of options	1,750	24
Lapses	-	-
As at 31 December 2014	2,806	142

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

- The options granted on 25 June 2010 (1,056,000 options) will vest if the mid-market share price of £0.30 is achieved during the period of grant (10 years ending 25 June 2020).
- The options granted on 25 June 2010 and 23 June 2014 require a minimum of three years continuous employment service in order to exercise upon the vesting date.

25. Called up share capital (continued)

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

	25 June 2010	23 June 2014
Fair value at date of grant	£0.03	£0.08
Share price	£0.11	£0.14
Exercise price	£0.11	£0.14
Expected volatility	47%	55%
Option life	3	3
Risk-free interest rate (based on government bonds)	2.24%	0.50%
Forfeiture rate	0%	0%

26. Analysis of changes in financing during the year

Analysis of changes in financing during the year	2014 £000	2013 £000
Balance at 1 January	24,998	22,943
Issue of loan notes	1,100	2,055
	26,098	24,998

The 2014 closing balance is represented by £18.933 million share capital (2013: £18.933 million) and £7.165 million of loan notes (2013: £6.065 million).

27. Regulator

The Group is regulated by the Isle of Man Government Financial Supervision Commission licensed to undertake banking activities and conduct investment business. In addition the Group is regulated by the Financial Conduct Authority in the United Kingdom for credit and brokerage related activities.

28. Related party transactions**Cash deposits**

During the year the Bank held cash on deposit on behalf of Jim Mellon (Executive Chairman of MFG) and companies related to Jim Mellon and Denham Eke (Chief Executive Officer of MFG). Total deposits amounted to £0.067 million (2013: £0.069 million), with normal commercial interest rates in accordance with the standard rates offered by the Bank are paid on these deposits.

Funds held in a fiduciary capacity**Fiduciary deposits**

The Bank acts as agent bank to a number of customers, for balances totalling £4.9 million (2013: £7.8 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.

A number of funds were held and accounts maintained in connection with the fiduciary services that the Bank offers to companies connected with Jim Mellon and Denham Eke. As at 31 December 2014, total balances held were £4,803,972 (2013: £7,596,279).

Staff and Commercial loans

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

Normal commercial loans are made to various companies connected to Jim Mellon and Denham Eke. As at 31 December 2014, £0.193 million of capital and interest was outstanding (2013: £0.343 million).

Intercompany recharges

Various intercompany recharges are made during the course of the year as a result of the Bank settling debts in other Group companies. In addition, MFG provided investment management and administration services for £0.439 million (2013: £0.600 million).

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28. Related party transactions (continued)

Investments

The Bank's only equity investment (note 15) is in a company whose largest shareholder is Jim Mellon and Denham Eke acts as a non-executive director.

Subordinated loans

Manx Financial Group PLC has advanced £1.9 million of subordinated loans in 2014 (2013: £2.0 million) with various maturity dates (see note 19).

Loan notes

See note 23 for a list of related party loan notes as at 31 December 2014 and 2013.

Key management personal (including Executive Directors') remuneration

	2014 £000	2013 £000
Short-term employee benefits	397	371

29. Operating leases

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

	2014		2013	
	Leasehold Property £000	Other £000	Leasehold Property £000	Other £000
Less than one year	317	-	297	-
Between one and five years	493	-	825	-
Over five years	213	-	336	-
	1,023	-	1,458	-

30. Subsequent events

The two outstanding Convertible Loan Notes ("Notes") that were otherwise due for maturity on 26 February 2015 (see note 23) have been extended by five years. The Notes together total £1.71 million, of which Jim Mellon, the Group's Executive Chairman, holds £1.25 million and Rock Holdings Limited (subsequently assigned to Southern Rock Insurance Limited), a company connected with John Banks, a non-executive Director of the Group, holds £0.46 million.

As a result, and having considered other methods of raising capital, the independent Directors have resolved, following negotiations with the lenders, to extend the two Notes for a further five years to 26 February 2020 at a reduced interest rate of 6.5%, down from the previous 9.0%. All other terms remain as those announced on 2 March 2010.



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