



MANX FINANCIAL  
GROUP PLC

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ANNUAL REPORT 2015

# 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.L) which has subsidiaries engaged in 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
- Manx Incahoot Limited



Conister Bank Limited (the “Bank”) is a licensed independent bank, regulated by the Financial Services Authority 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, block discounting and other specialist secured credit facilities to 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 £154 million.

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

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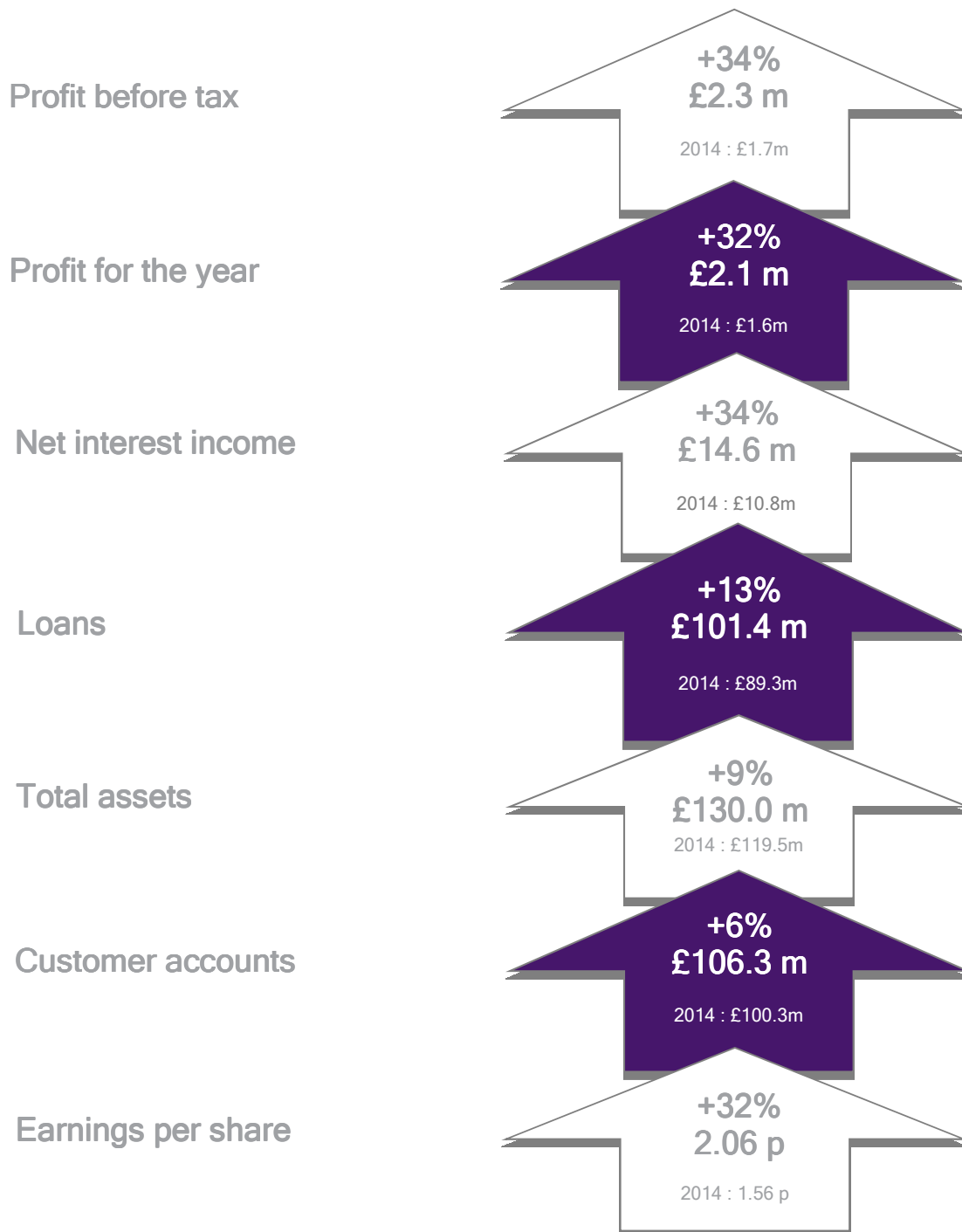
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Conister Card Services Limited is the Group’s pre-paid card division providing business clients with payment solutions that are both cost effective and create new revenue opportunities.



Manx Incahoot Limited operates as a UK based aggregation targeting the Employee Benefit market. Incahoot Limited was founded in 2011 and Manx Incahoot was launched in March 2015.





**Jim Mellon**  
Chairman

**Dear Shareholders,**

I am pleased to announce that we have secured a record Profit Before Tax for the year, which has increased by 34% to £2.31 million (2014: £1.73 million), providing a Return on Equity of 17.3% (2014: 15.9%) which, in relative terms to the banking sector, is extremely high. This is the sixth period running where we have demonstrated unbroken growth and, as a result, our balance sheet is stronger than ever. Of particular note is that Conister Bank, our principal banking subsidiary, increased Profit Before Tax by 95% to £2.24 million (2014: £1.15 million).

We have achieved this result against an ever increasing global concern over the world's banking system which has given rise to increased regulation and capital support requirements. In the Isle of Man and UK, this will manifest itself through the introduction of Basel III and the adoption of recommendations of the various committees that were established in the aftermath of the 2008 crisis. In particular, the regulation of consumer credit lending in the UK, an area we have long identified as providing profitable opportunities, has been strengthened by the UK Financial Conduct Authority ("FCA") taking oversight of this market from the Office of Fair Trading. As part of this change of regulator, the FCA is reviewing all consumer credit licence holders. Currently, we hold interim licences as our existing licences are reviewed and we would expect to have completed the re-application process by the end of 2016 with new full licences being granted. In tandem, we have strengthened our banking subsidiary's risk evaluation and compliance processes to ensure we continue to grow in a controlled and disciplined manner. In the last two years alone, our net assets have increased by more than a third and this investment in such an important element of our infrastructure will prove to be invaluable as we continue to grow in an ever increasing competitive market.

Our strategy for growth is through innovative product diversification. This allows us to leverage our existing expertise for both direct lending and lending through trusted relationships. As well as supporting growth, this strategy will provide an insulation against the wider increase in liquidity that is now returning to our lending markets.

New developments in financial technology have enabled fleet-footed lenders to create ever smarter distribution networks for their customers' advantage. In the last two years, we have seen developments that will materially improve the efficiency of financial institutions. In order to match these benefits, we will continue with the process of upgrading our key banking systems which we believe will inevitably lead to both the improved delivery of our products and the achievement of financial efficiencies.

**Manx Financial Group PLC**

Turning to our financial performance, Net Interest Income increased by 34% to £14.55 million (2014: £10.83 million), with Net Trading Income rising by 23% to £8.93 million (2014: £7.25

million). This led to a 24% increase in Operating Income to £9.10 million (2014: £7.35 million). Although Total Costs increased by 21% to £6.79 million (2014: £5.62 million), including a 20% increase in Personnel expenses to £3.52 million (2014: £2.93 million), the Profit Before Tax increased by 34% to £2.31 million (2014: £1.73 million). As a result, our 2015 Profit After Tax rose by 32% to £2.10 million (2014: £1.59 million), leading to a 32% increase in our basic earnings per share to 2.06 pence (2014: 1.56 pence).

Our balance sheet showed a similar improvement, whereby Loans and Customer Advances increased by 13% to £101.36 million (2014: £89.34 million), supported by Deposits of £106.33 million (2014: £100.26 million) and Cash of £7.16 million (2014: £6.12 million). Total Assets increased by 9% to £130.01 million (2014: £119.51 million) and Equity increased by 22% to £12.15 million (2014: £9.98 million).

**Conister Bank Limited**

The 2015 outcome is a reflection of the Group as a whole. Interest Income grew by 29% to £17.56 million (2014: £13.63 million) leading to a 23% increase in Net Trading Income to £7.38 million (2014: £6.02 million). Operating Income grew by 24% to £7.62 million (2014: £6.15 million). We have prudently increased Provisions by £1.06 million during the year (2014: £0.55 million) to a total of £2.06 million (2014: £1.81 million), representing 1.6% of our gross loan book. Personnel, Depreciation and all other Costs decreased by 3% to £4.32 million (2014: £4.45 million), which resulted in an 95% improvement in Profit Before Tax to £2.24 million (2014: £1.15 million).

Being totally funded by Isle of Man deposits remains a key strength and our Loan to Deposit ratio improved by 5.6% to 94.6% (2014: 89.0%). We remain committed to our very conservative liquidity policy: one which has no behavioural adjustments and no negative cumulative mismatches. This, along with our high regulatory Risk Asset Ratio of 16.4% (2014: 16.6%), provides additional comfort to our deposit base. Our reputation for prudent stewardship will assist deposit acquisition as we continue to grow our balance sheet.

I am pleased to welcome Ian Morley to the Bank's board as an independent Non-executive Director. Ian has advised Central Banks, International Regulators and other International Organisations, such as the EU and OECD on matters related to Economics, Markets and Regulation. Ian joins Neil Duggan who, as already reported, succeeded Don McCrickard as Chairman of the bank, following Don's retirement on 30 June 2015.

**Edgewater Associates Limited**

In my last annual report, I predicted an annual run rate of £0.36 million and I am pleased to report that our adjusted performance achieved this goal. During the year, we reviewed our cost base and incurred several one-off costs relating to moving office accommodation. The business is now housed in the same building as Conister Bank and the full impact of the cost savings achieved by this move will flow through to the 2016 Income Statement. With an annual adjusted return on equity of 18% and a fully developed 'back office' offering, this market sector is one I am keen on investing further in. As such we continue to review potential IFA acquisitions to bolt onto this business.

**Conister Card Services Limited**

Whilst progress towards our ambition of monetising our MasterCard® licence has been slow, I am content that proper due diligence and contract negotiations take precedence to any short term gain. We have a number of opportunities within in pre-paid card space which are in the process of development.

**Other operating subsidiaries**

We continue to incubate new business lines, including foreign exchange services, peer-to-peer lending and loan broking, both to test market competitiveness and to broaden the suite of financial services we offer. We continue to nurture those that show promise and I look forward to reporting in more detail about these ventures in future reports.

**Outlook**

I believe further liquidity will return to the traditional lending markets forcing pressure on yields and that interest rates in the UK will continue to remain at their historic low levels for most of 2016. With this backdrop, I believe that our lending strategy of growth through product extension will continue to be successful as we further increase our product range and source our liquidity through our fixed term rate structure. Our fixed term deposits will also provide a partial shield against yield pressure in the more competitive lending markets. Thus I see no current reason as to why the year-end 2016 should not continue our profit growth at the same or similar rate.

Whilst our strategy is not acquisition led we will continue to review acquisition opportunities where they make good, sound financial sense.

Finally, I would like to take this opportunity to thank you, our shareholders, our staff, your Board and our wider stakeholders for their continued support. I look forward to working with you all to continue to grow Manx Financial Group into an enlarged and diversified financial services company.

**Jim Mellon**

Executive Chairman  
29 February 2016

Executive Directors



Jim Mellon (59) ‡  
Executive Chairman

Jim Mellon holds directorships in a number of publicly quoted companies, many of which are in the financial services sector. He is the beneficial owner of Burnbrae 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 (64) ‡  
Chief Executive Officer

Denham Eke is the Managing Director of Burnbrae 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 Life Science Developments Limited, 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 (45) ‡  
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 (51) ‡  
Group Finance Director

Douglas Grant has over 30 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



Alan Clarke (65) ‡ † \*  
Non-executive Director

Alan Clarke is a chartered accountant and former senior partner of Ernst & Young during which time he worked closely with HSBC offshore operations in both the Channel Islands and the Isle of Man. Currently he specialises in corporate finance and strategic consultancy, advising a variety of both listed and private companies. He holds several non-executive directorships and is deputy president of ICAEW 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 (68) ‡ † \* ≠  
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.



John Banks (47) ‡  
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.



Neil Duggan (55) ‡ † \* ≠  
Non-executive Director

Neil is a qualified chartered accountant and up to September 2012 was a partner in KPMG in the Isle of Man. He was head of the audit practice in the Isle of Man and Gibraltar and also headed up KPMG's transaction services delivery across a number of jurisdictions, including the Caribbean. His specialist areas were the finance sector and property. Currently, he holds a number of non-executive positions in Isle of Man based listed and private groups.

### Appointment

Appointed to the Board on 1 July 2015. He is Chairman of Conister Bank Limited.

## Advisers

### Company Secretary

Lesley Crossley

### Registered Office

Clarendon House  
Victoria Street  
Douglas  
Isle of Man IM1 2LN

### Registered Agent

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

### Legal Advisers

*As to Isle of Man law*  
Long & Humphrey  
The Old Courthouse  
Athol Street  
Douglas  
Isle of Man IM1 1LD

*As to English law*  
Kerman & Co LLP  
200 Strand  
London WC2R 1DJ

### Independent Auditors

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

### Principal Bankers

Royal Bank of Scotland  
135 Bishopsgate  
London  
EC2M 3UR

### Consulting Actuaries

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

### Pension Fund Investment Manager

Thomas Miller Investment  
(Isle of Man) Limited  
Level 2  
Samuel Harris House  
5-11 St George's Street  
Douglas  
Isle of Man IM1 1AJ

### Nominated Advisor and Broker

Beaumont Cornish  
Limited  
2<sup>nd</sup> Floor  
Bowman House  
29 Wilson Street  
London EC2M 2SJ

### Registrar

Computershare Investor  
Services (Jersey) Limited  
Queensway House  
Hilgrove Street  
St Helier  
Jersey JE1 1ES

### Presentation of Annual Report and Accounts

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

### Company Information

The Annual and Interim Reports, along with other supplementary information of interest to Shareholders, are included on our website. The address of the website is [www.mfg.im](http://www.mfg.im) which includes investor relations information and contact details.

\* Member of the Audit, Risk and Compliance Committee

† Member of the Remuneration Committee

‡ Member of the Nominations Committee

≠ Independent Non-executive Director

# Manx Financial Group PLC

## Directors' Report

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The Directors present their annual report and the audited financial statements for the year ended 31 December 2015.

### Principal regulated 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, a wholly owned subsidiary of the Company, holds a class 1 deposit taking licence issued under section 7 of the Isle of Man Financial Services Act 2008. Deposits made with the Bank are covered by the Isle of Man Depositors' Compensation Scheme contained in the Banking Business (Compensation of Depositors) Regulations 1991.

Edgewater Associates Limited is authorised by the Isle of Man Financial Services Authority 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 (2014: nil).

### Share capital

Particulars of the authorised and issued share capital of the Company are set out in note 27 to the financial statements.

### Significant shareholdings

The number of shares held and the percentage of the issued shares which that number represented as at 18 February 2016 are:

	Number	% of issued capital
Rene Nominees (IOM) Limited <sup>1</sup>	26,288,992	25.76
Jim Mellon	17,635,332	17.28
Lynchwood Nominees Limited	10,429,537	10.22
Island Farms Limited	4,222,319	4.14

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

The Directors are not aware of any other individual holding of greater than 3% as at 18 February 2016.

### 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:

Don McCrickard retired on 30 June 2015 after 9 years of service with the Group. Neil Duggan was appointed on 1 July 2015.

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

	Number 18/02/16	Number 31/12/15	Number 31/12/14
Jim Mellon <sup>1</sup>	17,635,332	17,635,332	17,635,332
John Banks <sup>2</sup>	2,336,833	2,336,833	2,336,833
David Gibson <sup>3</sup>	1,547,227	1,547,227	1,400,000
Douglas Grant	505,821	505,821	505,821
Alan Clarke	52,149	52,149	52,149
Juan Kelly	27,860	27,860	27,860

<sup>1</sup> Burnbrae Limited holds 16,000,000 Ordinary Shares. Jim Mellon, Executive Chairman of Manx Financial Group plc ("MFG"), is a director of Burnbrae Limited. Burnbrae Limited is beneficially 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.

<sup>2</sup> Comprises 2,336,833 Ordinary Shares held by Rene Nominees (IOM) Limited in trust for John Banks' underage children, Arron Banks and his underage children.

<sup>3</sup> Comprises 1,547,227 Ordinary Shares held by TD Direct Investing Nominees (Europe) Limited in trust for David Gibson.

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

	Number 18/02/16	Number 31/12/15	Number 31/12/14
Douglas Grant	1,042,466	1,042,466	1,042,466
Juan Kelly	700,000	700,000	700,000

### Directors' liability insurance

The Group maintains insurance cover for Directors' potential liability.

### Fixed and intangible assets

The movement in fixed and intangible assets during the year are set out in notes 18 and 19 respectively to the financial statements.

### Staff

At 31 December 2015 there were 64 members of staff (2014: 56), of whom 6 were part-time (2014: 6).

### Investment in subsidiaries

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

### Auditors

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



## Corporate Governance Report

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 2014 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 Officer, 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 the Chairman of the Board 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 Board is collectively responsible for the long-term success of the organisation. Its principal function is to determine the strategy and policies of the 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 three Non-executive Directors, currently Alan Clarke (Chairman), David Gibson and Neil Duggan. The Executive Directors and representatives from the internal and external auditors attend by invitation. Its role is to be 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 external auditors. The Committee reviews and monitors the external auditors' 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 Officer 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 Officer 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 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 2014 (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. At least two 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 Officer'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. 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 Statement 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 and 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

Currently, the Group Audit, Risk and Compliance Committee comprises of three 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 external auditors. The Committee reviews and monitors the external auditors' 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 2015 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 29 February 2016 and signed on its behalf by:

**Jim Mellon**  
Executive Chairman  
29 February 2016

### Directors' Remuneration Report

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 2014 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
- 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 payment 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 in all compliance requirements. 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 contractually guaranteed performance related pay, 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.

#### 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 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 £	2015 Total £	2014 Total £
<b>Executives</b>					
Denham Eke	25,000	-	-	<b>25,000</b>	25,000
Douglas Grant	146,889	27,300	14,677	<b>188,866</b>	184,754
Juan Kelly	150,758	26,700	15,057	<b>192,515</b>	190,885
Jim Mellon	25,000	-	-	<b>25,000</b>	25,000
<b>Non-Executives</b>					
John Banks <sup>1</sup>	25,000	-	-	<b>25,000</b>	10,417
Alan Clarke	38,958	-	-	<b>38,958</b>	37,500
Neil Duggan <sup>2</sup>	30,000	-	-	<b>30,000</b>	-
David Gibson	38,958	-	-	<b>38,958</b>	37,500
Don McCrickard <sup>3</sup>	18,750	-	-	<b>18,750</b>	37,500
Aggregate emoluments	499,313	54,000	29,734	<b>583,047</b>	548,556

<sup>1</sup> John Banks was appointed on 5 August 2014.

<sup>2</sup> Neil Duggan was appointed on 1 July 2015.

<sup>3</sup> Don McCrickard retired on 30 June 2015.

**Approval**

This report was approved by the Board of Directors on 29 February 2016 and signed on its behalf by:

**Alan Clarke**

Chairman of the Remuneration Committee

29 February 2016

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# Manx Financial Group PLC

## Statement of Directors' Responsibilities

### in respect of the Directors' Report and the financial statements

# 12

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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 2015 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 (IFRS) 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.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**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 2015 and of the Group's profit for the year then ended; and
- have been properly prepared in accordance with IFRS 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 21 to the financial statements concerning a reclaim of VAT in relation to a revised Partial Exemption Special Method. The Group's total exposure in relation to this matter is £589,000, comprising a debtor balance of £466,000 in respect of retrospective VAT and an amount of £123,000 reclaimed under the revised method in the period from Q4 2011 to Q3 2012. As detailed in note 21, the ultimate recovery of the debtor balance and the decision as to whether the VAT already reclaimed will be required to be repaid rests on the outcome of discussions with the Isle of Man Government Customs and Excise Division ("C&E"), which in turn will take into account the final resolution of the dispute between Volkswagen Financial Services (UK) Limited v HM Revenue & Custom ("the VWFS case"). Due to the inherent uncertainty associated with the final resolution of the VWFS case and its impact on discussions with C&E, the amount of the VAT debtor balance recovered and the amount of the sum already reclaimed that will be required to be repaid 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

1 March 2016

# Manx Financial Group PLC

## Consolidated Income Statement

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For the year ended 31 December	Notes	2015 £000	2014 £000
Interest income	6	17,556	13,634
Interest expense	10	<u>(3,002)</u>	<u>(2,809)</u>
<b>Net interest income</b>		<b>14,554</b>	<b>10,825</b>
Fee and commission income		1,527	1,276
Profit / (loss) on joint venture	20	28	(2)
Fee and commission expense		<u>(984)</u>	<u>(1,102)</u>
Commission sharing schemes	3(t)	<u>(6,196)</u>	<u>(3,749)</u>
<b>Net trading income</b>		<b>8,929</b>	<b>7,248</b>
Other operating income		<u>166</u>	<u>97</u>
<b>Operating income</b>		<b>9,095</b>	<b>7,345</b>
Personnel expenses		<u>(3,515)</u>	<u>(2,931)</u>
Other expenses	7	<u>(2,385)</u>	<u>(1,950)</u>
Provision for impairment on loan assets	8	<u>(1,059)</u>	<u>(550)</u>
Depositors' Compensation Scheme recovery	9	10	11
Depreciation	18	<u>(226)</u>	<u>(228)</u>
Amortisation	19	<u>(44)</u>	-
Realised gains on available for sale financial assets	16	80	32
Unrealised gain / (loss) on financial assets carried at fair value	15	30	(1)
Gain on acquisition of subsidiary	20	28	-
Bargain purchase	20	<u>295</u>	<u>-</u>
<b>Profit before tax payable</b>	10	<b>2,309</b>	<b>1,728</b>
Tax payable	11	<u>(207)</u>	<u>(139)</u>
<b>Profit for the year</b>		<b><u>2,102</u></b>	<b><u>1,589</u></b>
Basic earnings per share (pence)	12	<b>2.06</b>	1.56
Diluted earnings per share (pence)	12	<b>1.29</b>	0.98

The notes on pages 19 to 48 form part of these financial statements.

The Directors believe that all results derive from continuing activities.



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Manx Financial Group PLC  
Consolidated Statement of Other Comprehensive Income

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For the year ended 31 December	Notes	2015 £000	2014 £000
<b>Other comprehensive income:</b>			
<b>Items that will be reclassified to profit or loss</b>			
Available for sale gains taken to equity	16	-	6
<b>Items that will never be reclassified to profit or loss</b>			
Actuarial gains / (losses) on defined benefit pension scheme taken to equity	26	<u>19</u>	<u>(173)</u>
<b>Total comprehensive income for the period attributable to owners</b>		<u>2,121</u>	<u>1,422</u>
Basic earnings per share (pence)	12	<b>2.08</b>	1.39
Diluted earnings per share (pence)	12	<b>1.30</b>	0.89

The notes on pages 19 to 48 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	
		2015 £000	2014 £000	2015 £000	2014 £000
<b>Assets</b>					
Cash and cash equivalents	14	7,156	6,123	100	-
Financial assets at a fair value through profit or loss	15	77	47	-	-
Available for sale financial instruments	16	15,981	18,775	-	-
Loans and advances to customers	17	101,356	89,338	-	-
Commissions receivable		361	326	-	-
Property, plant and equipment	18	872	605	247	-
Intangible assets	19	398	-	-	-
Investment in Group undertakings	20	-	-	12,072	12,072
Amounts due from Group undertakings	20	-	-	285	350
Trade and other receivables	21	1,377	1,166	98	62
Investment in joint venture	20	-	499	-	-
Subordinated loan	20	-	-	4,078	4,078
Deferred tax asset	11	83	284	-	-
Goodwill	20	2,344	2,344	-	-
<b>Total assets</b>		<b>130,005</b>	<b>119,507</b>	<b>16,880</b>	<b>16,562</b>
<b>Liabilities</b>					
Customer accounts	22	106,328	100,259	-	-
Creditors and accrued charges	23	3,343	1,715	12	20
Block creditors	24	588	-	-	-
Amounts owed to Group undertakings	20	-	-	2,874	2,599
Loan notes	25	7,265	7,165	7,265	7,165
Pension liability	26	334	388	-	-
<b>Total liabilities</b>		<b>117,858</b>	<b>109,527</b>	<b>10,151</b>	<b>9,784</b>
<b>Equity</b>					
Called up share capital	27	18,933	18,933	18,933	18,933
Profit and loss account		(6,786)	(8,953)	(12,204)	(12,155)
<b>Total equity</b>		<b>12,147</b>	<b>9,980</b>	<b>6,729</b>	<b>6,778</b>
<b>Total liabilities and equity</b>		<b>130,005</b>	<b>119,507</b>	<b>16,880</b>	<b>16,562</b>

The financial statements were approved by the Board of Directors on 29 February 2016 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 48 form part of these financial statements.

Manx Financial Group PLC  
Consolidated Statement of Cash Flows

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For the year ended 31 December	Notes	2015 £000	2014 £000
<b>RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS</b>			
Profit before tax on continuing activities		2,309	1,728
Unrealised (gain) / loss on financial assets carried at fair value		(30)	1
Gain on disposal of property, plant and equipment		(12)	(5)
(Profit) / loss on joint venture		(28)	2
Gain on acquisition of subsidiary	20	(28)	-
Depreciation	18	226	228
Amortisation	19	44	-
Bargain purchase	20	(295)	-
Actuarial loss on defined benefit pension scheme taken to equity	26	19	(173)
(Decrease) / increase in pension liability	26	(54)	136
Share-based payment expense	27	46	24
Increase in trade and other receivables		(208)	(152)
Increase in trade and other payables		1,168	934
Increase in commission debtors		(35)	(37)
		<hr/>	<hr/>
Net cash inflow from trading activities		3,122	2,686
Increase in loans and advances to customers		(11,369)	(13,519)
Increase in deposit accounts		6,069	22,144
		<hr/>	<hr/>
<b>Cash (outflow) / inflow from operating activities</b>		<b>(2,178)</b>	<b>11,311</b>
<b>CASH FLOW STATEMENT</b>			
<b>Cash flows from operating activities</b>			
Cash (outflow) / inflow from operating activities		(2,178)	11,311
Taxation paid		(6)	-
		<hr/>	<hr/>
<b>Net cash (outflow) / inflow from operating activities</b>		<b>(2,184)</b>	<b>11,311</b>
<b>Cash inflow / (outflow) from investing activities</b>			
Purchase of property, plant and equipment	18	(493)	(208)
Purchase of intangible assets	19	(21)	-
Acquisition of Incahoot Limited business	20	(101)	-
Sale / (purchase) of available for sale financial instruments	16	2,794	(9,769)
Sale of property, plant and equipment		12	7
Cash acquired on acquisition of subsidiary	20	926	-
Investment in joint venture	20	-	(501)
		<hr/>	<hr/>
<b>Net cash inflow / (outflow) from investing activities</b>		<b>3,117</b>	<b>(10,471)</b>
<b>Cash flows from financing activities</b>			
Issue of loan notes	25	100	1,100
		<hr/>	<hr/>
<b>Net cash inflow from financing activities</b>		<b>100</b>	<b>1,100</b>
		<hr/>	<hr/>
<b>Increase in cash and cash equivalents</b>		<b>1,033</b>	<b>1,940</b>
<b>Included in cash flows are:</b>			
Interest received - cash amounts		17,203	13,360
Interest paid - cash amounts		(2,906)	(2,802)

The notes on pages 19 to 48 form part of these financial statements.

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

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For the year ended 31 December Group	Share Capital £000	Retained Earnings £000	2015 £000	2014 £000
Balance as at 1 January	18,933	(8,953)	9,980	8,534
Profit for the year	-	2,102	2,102	1,589
Other comprehensive income	-	19	19	(167)
<b>Transactions with owners:</b>				
Share-based payment expense (see note 27)	-	46	46	24
Balance as at 31 December	18,933	(6,786)	12,147	9,980

For the year ended 31 December Company	Share Capital £000	Retained Earnings £000	2015 £000	2014 £000
Balance as at 1 January	18,933	(12,155)	6,778	6,356
(Loss) / profit for the year	-	(95)	(95)	398
<b>Transactions with owners:</b>				
Share-based payment expense (see note 27)	-	46	46	24
Balance as at 31 December	18,933	(12,204)	6,729	6,778

The notes on pages 19 to 48 form part of these financial statements.

## 1. Reporting entity

Manx Financial Group PLC is a company incorporated in the Isle of Man. The consolidated financial statements of Manx Financial Group PLC (the "Company") for the year ended 31 December 2015 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 2014 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 2015:

- *Defined Benefit Plans: Employee Contributions (Amendments to IAS 19);*
- *Annual Improvements to IFRS 2010 - 2012 Cycle; and*
- *Annual Improvements to IFRS 2011 - 2013 Cycle.*

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.

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

**(b) Accounting for business combinations**

Business combinations are accounted for by 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 and intangible assets**

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.

An intangible asset is an identifiable non-monetary asset without physical substance. An item is identifiable if it is separable or arises from contractual or other legal rights. The initial measurement of an intangible asset depends on whether it has been acquired separately or has been acquired as part of a business combination.

Intangible assets that are acquired by an entity and having finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets acquired as part of a business combination, with an indefinite useful life are measured at fair value. Intangible assets with indefinite useful lives are not amortised but instead are subject to impairment testing at least annually.

**Depreciation and amortisation**

Assets are depreciated or amortised on a straight-line basis, so as to write off the book value over their estimated useful lives. The useful lives of property, plant and equipment and intangibles are as follows:

*Property, plant and equipment*

Leasehold improvements	to expiration of the lease
Equipment	4-5 years
Vehicles	4 years
Furniture	10 years

*Intangible assets*

Customer contracts	to expiration of the agreement
Business intellectual property rights	indefinite
Website development costs	indefinite

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

**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.

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

**(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) Long term 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. 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**

**A Group company is the lessor**

**Finance leases and 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)****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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# Manx Financial Group PLC

## Notes to the Consolidated Financial Statements

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

##### (o) New standards and interpretations not yet adopted

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

<b>New/revised International Accounting Standards/International Financial Reporting Standards (IAS/IFRS)</b>	<b>Effective date</b> (accounting periods commencing on or after)
<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 IFRS 2012 - 2014 Cycle - various standards</i>	1 January 2016
<i>Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)</i>	1 January 2016
<i>Disclosure Initiative (Amendments to IAS 1)</i>	1 January 2016
<i>IFRS 15 Revenue from Contracts with Customers</i>	1 January 2018
<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, goodwill and the Incahoot bargain purchase. 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 could receive funds for its prepaid card activities. These funds would be held in a fiduciary capacity for the sole purpose of making payments as and when card-holders utilise the credit on their cards and therefore would not be 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 sharing 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 Bank. 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").

# Manx Financial Group PLC

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

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

ARCC is responsible for monitoring compliance with the risk management policies and procedures faced by the Group's regulated entities, and for reviewing the adequacy of the risk management framework. 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 Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure, such as individual obligor default, country and sector risk. The Bank is principally exposed to credit risk with regard to loans and advances to customers, comprising HP and finance lease receivables, litigation funding loans, unsecured personal loans, secured commercial loans, block discounting and stock plan loans. It is also exposed to credit risk with regard to cash balances and trade and other receivables.

##### 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:

	2015 £000	2014 £000
<b>Carrying amount</b>	<b>101,356</b>	89,338
Individually impaired <sup>1</sup>		
Grade A	-	-
Grade B	-	-
Grade C	<b>2,916</b>	3,043
Gross value	<b>2,916</b>	3,043
Allowance for impairment	<b>(2,011)</b>	(1,754)
<b>Carrying value</b>	<b>905</b>	1,289
<b>Collective allowance for impairment</b>	<b>(50)</b>	(51)
Past due but not impaired		
Less than 1 month	<b>3,070</b>	712
1 month but less than 2 months	<b>1,507</b>	1,001
2 months but less than 3 months	<b>397</b>	305
3 months and over	<b>630</b>	371
<b>Carrying value</b>	<b>5,604</b>	2,389
Neither past due nor impaired	<b>94,897</b>	85,711

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

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

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

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

##### Management of credit risk (continued)

##### Impaired loans

Impaired loans are loans where the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

##### Past due but not impaired loans

Past due but not impaired loans are loans where the contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security, collateral available and/or the stage of collection of amounts owed to the Group.

##### Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss allowance that relates to individually significant exposures, and a collective loan loss allowance, which is established for the Group's assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. The collective loan loss allowance is based on historical experience, the current economic environment and an assessment of its impact on loan collectability. Guidelines regarding specific impairment allowances are laid out in the Bank's Debt Recovery Process Manual which is reviewed annually.

##### Write-off policy

The Group writes off a loan balance (and any related allowances for impairment losses) when management determines that the loans are uncollectable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

##### Collateral

The Group holds collateral in the form of the underlying assets (typically private and commercial vehicles, plant and machinery) as security for HP, finance leases, vehicle stocking plans, block discounting and secured commercial loan balances, which are sub-categories of loans and advances to customers. In addition, the commission share schemes have an element of capital indemnified, 2015: 57.6% of loans and advances (2014: 53.2%). 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 UK addresses.

##### Segmental

The Bank is exposed to credit risk with regard to customer loan accounts, comprising HP and finance lease balances, unsecured personal loans, secured commercial loans, block discounting and vehicle stocking plan loans. In addition, the Bank lends via significant introducers into the UK. There were two introducers that accounted for more than 20% of the Bank's total lending portfolio at the end of 31 December 2015 (2014: one introducer).

##### ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial liability obligations as they fall due.

##### Management of liquidity risk

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses various methods, including forecasting of cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source. Maturity mismatches between lending and funding are managed within internal risk policy limits.

4. Risk and capital management (continued)

(a) Risk management (continued)

(ii) Liquidity risk (continued)

Management of liquidity risk (continued)

Minimum liquidity

The Isle of Man Financial Services Authority (“FSA”) 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 FSA.

Measurement of liquidity risk

The key measure used by the Bank 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 2015	Sight- 8 days £000	>8 days - 1 month £000	>1 month - 3 months £000	>3 months - 6 months £000	>6 months - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Total £000
Customer accounts	2,312	1,176	2,287	4,213	25,279	52,859	23,533	-	111,659
Other liabilities	3,353	58	131	199	1,288	4,061	3,386	334	12,810
<b>Total liabilities</b>	<b>5,665</b>	<b>1,234</b>	<b>2,418</b>	<b>4,412</b>	<b>26,567</b>	<b>56,920</b>	<b>26,919</b>	<b>334</b>	<b>124,469</b>

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
<b>Total liabilities</b>	<b>3,590</b>	<b>2,458</b>	<b>3,674</b>	<b>4,628</b>	<b>35,987</b>	<b>41,077</b>	<b>23,781</b>	<b>388</b>	<b>115,583</b>

## 4. Risk and capital management (continued)

## (a) Risk management (continued)

## ii) Liquidity risk (continued)

## Measurement of liquidity risk (continued)

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

31 December 2015	Sight- 8 days £000	>8 days - 1 month £000	>1 month - 3 months £000	>3 month- 6 months £000	>6 month - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Total £000
<b>Assets</b>									
Cash & cash equivalents	7,156	-	-	-	-	-	-	-	7,156
Available for sale financial instruments	-	3,000	6,995	5,986	-	-	-	-	15,981
Customer accounts receivable	2,054	1,765	6,367	9,006	16,746	47,742	16,782	894	101,356
Commission debtors	33	88	240	-	-	-	-	-	361
Other assets	77	-	-	-	-	-	-	5,074	5,151
<b>Total assets</b>	<b>9,320</b>	<b>4,853</b>	<b>13,602</b>	<b>14,992</b>	<b>16,746</b>	<b>47,742</b>	<b>16,782</b>	<b>5,968</b>	<b>130,005</b>
<b>Liabilities</b>									
Customer accounts	2,313	1,175	2,283	4,179	24,869	50,498	21,011	-	106,328
Other liabilities	3,343	28	56	84	1,072	3,453	3,160	334	11,530
<b>Total liabilities</b>	<b>5,656</b>	<b>1,203</b>	<b>2,339</b>	<b>4,263</b>	<b>25,941</b>	<b>53,951</b>	<b>24,171</b>	<b>334</b>	<b>117,858</b>

31 December 2014	Sight- 8 days £000	>8 days - 1 month £000	>1 month - 3 months £000	>3 month- 6 months £000	>6 month - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Total £000
<b>Assets</b>									
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
<b>Total assets</b>	<b>6,365</b>	<b>4,761</b>	<b>17,525</b>	<b>15,047</b>	<b>17,107</b>	<b>40,478</b>	<b>13,138</b>	<b>5,086</b>	<b>119,507</b>
<b>Liabilities</b>									
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
<b>Total liabilities</b>	<b>3,576</b>	<b>2,427</b>	<b>3,599</b>	<b>4,500</b>	<b>35,236</b>	<b>38,601</b>	<b>21,200</b>	<b>388</b>	<b>109,527</b>

4. Risk and capital management (continued)

(a) Risk management (continued)

(iii) Operational risk

Operational risk arises from the potential for inadequate systems including systems' breakdown, errors, poor management, breaches in internal controls, fraud and external events to result in financial loss or reputational damage. Operational risk also occurs when lending through an outsourced partner. The Group manages the risk through appropriate risk controls and loss mitigation actions. These actions include a balance of policies, procedures, internal controls and business continuity arrangements. Operational risk across the Group is analysed and discussed at all Board meetings, with ongoing monitoring of actions arising to address the risks identified.

(iv) Market risk

Market risk is the risk that changes in the level of interest rates, changes in the rate of exchange between currencies or changes in the price of securities and other financial contracts including derivatives will have an adverse financial impact. The primary market risk within the Group is interest rate risk exposure in the Bank. As at 31 December 2015 and 2014, 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 £77,000 at 31 December 2015 (2014: £47,000) 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 2015	Sight- 1 month £000	>1month -3month £000	>3month- 6months £000	>6month - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Non-Int. Bearing £000	Total £000
<b>Assets</b>									
Cash & cash equivalents	7,156	-	-	-	-	-	-	-	7,156
Available for sale financial instruments	3,000	6,995	5,986	-	-	-	-	-	15,981
Customer accounts receivable	3,819	6,367	9,006	16,746	47,742	16,782	894	-	101,356
Commission debtors	-	-	-	-	-	-	-	361	361
Other assets	-	-	-	-	-	-	-	5,151	5,151
<b>Total assets</b>	<b>13,975</b>	<b>13,362</b>	<b>14,992</b>	<b>16,746</b>	<b>47,742</b>	<b>16,782</b>	<b>894</b>	<b>5,512</b>	<b>130,005</b>
<b>Liabilities</b>									
Customer accounts	3,488	2,283	4,179	24,869	50,498	21,011	-	-	106,328
Other liabilities	28	56	84	1,072	3,453	3,160	334	3,343	11,530
Total capital and reserves	-	-	-	-	-	-	-	12,147	12,147
<b>Total liabilities and equity</b>	<b>3,516</b>	<b>2,339</b>	<b>4,263</b>	<b>25,941</b>	<b>53,951</b>	<b>24,171</b>	<b>334</b>	<b>15,490</b>	<b>130,005</b>
Interest rate sensitivity gap	10,459	11,023	10,729	(9,195)	(6,209)	(7,389)	560	(9,978)	-
<b>Cumulative</b>	<b>10,459</b>	<b>21,482</b>	<b>32,211</b>	<b>23,016</b>	<b>16,807</b>	<b>9,418</b>	<b>9,978</b>	<b>-</b>	<b>-</b>



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

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

##### (iv) Market risk (continued)

##### Interest risk re-pricing table (continued)

31 December 2014	Sight- 1 month £000	>1month- 3month £000	>3month- 6months £000	>6month - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Non-Int. 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
<b>Total assets</b>	<b>10,970</b>	<b>17,308</b>	<b>15,047</b>	<b>17,107</b>	<b>40,478</b>	<b>13,138</b>	<b>188</b>	<b>5,271</b>	<b>119,507</b>
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
<b>Total liabilities and equity</b>	<b>1,861</b>	<b>2,427</b>	<b>3,599</b>	<b>4,500</b>	<b>35,236</b>	<b>38,601</b>	<b>21,200</b>	<b>12,083</b>	<b>119,507</b>
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	-	-

##### 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 FSA 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 2.0% per annum (2014: 2.0%). The following tables set out the estimated total impact of such a change based on the mismatch at the balance sheet date.

31 December 2015	Sight- 1 month £000	>1month- 3month £000	>3month- 6months £000	>6month - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Non-Int. Bearing £000	Total £000
Interest rate sensitivity gap	10,459	11,023	10,729	(9,195)	(6,209)	(7,389)	560	(9,978)	-
Weighting	0.000	0.003	0.007	0.014	0.027	0.054	0.115	0.000	-
£000	-	33	75	(129)	(168)	(399)	63	-	(525)

31 December 2014	Sight- 1 month £000	>1month- 3month £000	>3month- 6months £000	>6month - 1 year £000	>1 year - 3 years £000	>3 years - 5 years £000	>5 years £000	Non-Int. 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)

**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 FSA 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 2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Investment securities</b>				
Government bonds	15,981	-	-	15,981
Equities	77	-	-	77
	<b>16,058</b>	<b>-</b>	<b>-</b>	<b>16,058</b>

**4. Risk and capital management (continued)**  
**(c) Fair value of financial instruments (continued)**  
**Valuation models (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 2015	Level 1 £000	Level 2 £000	Level 3 £000	Total fair values £000	Total carrying amount £000
<b>Assets</b>					
Cash and cash equivalents	-	7,156	-	7,156	7,156
Loans and advances to customers	-	101,356	-	101,356	101,356
Commissions receivable	-	361	-	361	361
Trade and other receivables	-	1,377	-	1,377	1,377
	-	110,250	-	110,250	110,250
<b>Liabilities</b>					
Customer accounts	-	106,328	-	106,328	106,328
Creditors and accrued charges	-	3,343	-	3,343	3,343
Block creditors	-	588	-	588	588
Loan notes	-	7,265	-	7,265	7,265
	-	117,524	-	117,524	117,524

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); Manx Incahoot; Conister Card Services; and Edgewater Associates Limited.

For the year ended 31 December 2015	Asset and Personal Finance £000	Manx Incahoot £000	Conister Card Services £000	Edgewater Associates £000	Investing Activities £000	Total £000
Net interest income	14,554	-	-	-	-	14,554
Operating income	7,591	84	(98)	1,369	149	9,095
<b>Profit/(loss) before tax payable</b>	<b>2,299</b>	<b>203</b>	<b>(71)</b>	<b>148</b>	<b>(270)</b>	<b>2,309</b>
Capital expenditure	173	122	-	44	274	613
<b>Total assets</b>	<b>128,357</b>	<b>447</b>	<b>123</b>	<b>580</b>	<b>498</b>	<b>130,005</b>

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5. Segmental analysis (continued)

For the year ended 31 December 2014	Asset and Personal Finance £000	Litigation Finance £000	Conister Card Services £000	Edgewater Associates £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 payable	1,733	45	(150)	146	(46)	1,728
Capital expenditure	183	-	-	25	-	208
Total assets	118,515	-	106	824	62	119,507

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 and interest on bank balances.

7. Other expenses

	2015 £000	2014 £000
Professional and legal fees	654	496
Marketing costs	161	131
IT costs	339	348
Establishment costs	547	355
Communication costs	66	71
Travel costs	75	72
Bank charges	115	71
Insurance	115	111
Irrecoverable VAT	228	206
Other costs	85	89
	<b>2,385</b>	<b>1,950</b>

8. Allowance for impairment

The charge in respect of specific allowances for impairment comprises:

	2015 £000	2014 £000
Specific impairment allowances made	1,255	890
Reversal of allowances previously made	(195)	(212)
<b>Total charge for specific provision for impairment</b>	<b>1,060</b>	<b>678</b>

The credit in respect of collective allowances for impairment comprises:

	2015 £000	2014 £000
Collective impairment allowances made	2	23
Release of allowances previously made	(3)	(151)
<b>Total credit for collective allowances for impairment</b>	<b>(1)</b>	<b>(128)</b>
<b>Total charge for allowances for impairment</b>	<b>1,059</b>	<b>550</b>

**9. Depositors' Compensation Scheme**

	2015 £000	2014 £000
Receipt in respect of the Isle of Man Government Depositors' Compensation Scheme	10	11

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 FSA of £133,506 and £34,424 have been received and a further £53,710 is expected from the Scheme. In 2015, the Bank received £9,408 as a final repayment for a Scheme for the Bank of Credit and Commerce Overseas Limited launched in 1991.

**10. Profit before tax payable**

The profit before tax payable for the year is stated after charging:

	2015 £000	2014 £000
Interest expense payable to depositors	2,573	2,360
Interest expense payable on loan notes	429	449
Profit on sale of fixed assets	(12)	(5)
Share options expense	46	24
Directors' remuneration	297	286
Directors' fees	202	179
Directors' pensions	30	29
Directors' performance related pay	54	60
Auditors' remuneration: as Auditors current year	86	85
non-audit services	19	26
Pension cost defined contribution scheme	14	12
Operating lease rentals for property	342	213

**11. Tax expense**

	2015 £000	2014 £000
<b>Current tax expense</b>		
Current year	21	29
Changes to estimates for prior years	(15)	-
	<u>6</u>	<u>29</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	6	12
Utilisation of previously recognised tax losses	197	123
Changes to estimates for prior years	(2)	(25)
	<u>201</u>	<u>110</u>
<b>Total tax expense</b>	<b>207</b>	<b>139</b>

		2015 £000		2014 £000
<b>Reconciliation of effective tax rate</b>				
Profit before tax on continuing operations		2,309		1,728
Tax using the Banking division's domestic tax rate	10.0%	231	10.0%	173
Effect of tax rates in foreign jurisdictions	0.4%	8	0.9%	12
Non-deductible expenses	0.6%	15	2.3%	40
Tax exempt income	(0.8)%	(18)	(3.3)%	(58)
Timing differences in current year	(0.8)%	(18)	(0.9)%	(15)
Origination and reversal of temporary differences in deferred tax	0.3%	6	0.6%	12
Changes to estimates for prior years	(0.7)%	(17)	(1.5)%	(25)
<b>Total tax expense</b>	<b>9.0%</b>	<b>207</b>	<b>8.1%</b>	<b>139</b>

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#### 11. Tax expense (continued)

The main rate of corporation tax in the Isle of Man is 0.0% (2014: 0.0%). However the profits of the Group's Manx banking activities are taxed at 10.0% (2014: 10.0%). The profits of the Group's subsidiaries that are subject to UK corporation tax are taxed at a rate of 20.0% (2014: 21.5%).

The value of tax losses carried forward and timing differences reduced to £83,000 (2014: £284,000) and resulted in an expense of £201,000 (2014: £110,000) to the income statement.

#### 12. Earnings per share

	2015	2014
<b>Profit for the year</b>	<b>£2,102,000</b>	£1,589,000
Weighted average number of ordinary shares in issue	<b>102,070,252</b>	102,070,252
Basic earnings per share (pence)	<b>2.06</b>	1.56
Diluted earnings per share (pence)	<b>1.29</b>	0.98
<b>Total comprehensive income for the period</b>	<b>£2,121,000</b>	£1,422,000
Weighted average number of ordinary shares in issue	<b>102,070,252</b>	102,070,252
Basic earnings per share (pence)	<b>2.08</b>	1.39
Diluted earnings per share (pence)	<b>1.30</b>	0.89

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.

	2015	2014
<b>Reconciliation of weighted average number of ordinary shares in issue between basic and diluted earnings per share</b>		
As per basic earnings per share	<b>102,070,252</b>	102,070,252
Number of shares issued if all convertible loan notes were exchanged for equity (note 25)	<b>61,500,000</b>	61,500,000
Dilutive element of warrants if taken up (note 25)	<b>17,641,990</b>	21,172,093
Dilutive element of share options if exercised (note 27)	<b>22,665</b>	130,990
As per dilutive earnings per share	<b>181,234,907</b>	184,873,335
<b>Reconciliation of earnings between basic and diluted earnings per share</b>		
As per basic earnings per share	<b>£2,102,000</b>	£1,589,000
Interest expense saved if all convertible loan notes were exchanged for equity (note 25)	<b>£230,150</b>	£221,900
As per dilutive earnings per share	<b>£2,332,150</b>	£1,810,900

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 loss

The loss on ordinary activities after taxation of the Company is £95,000 (2014: £398,000 profit).

#### 14. Cash and cash equivalents

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Cash at bank and in hand	<b>7,156</b>	6,123	<b>100</b>	-
Short-term deposits	-	-	-	-
	<b>7,156</b>	6,123	<b>100</b>	-

Cash at bank includes an amount of £140,000 (2014: £25,000) representing receipts which are in the course of transmission.

**15. Financial assets at fair value through profit or loss**

The investment represents shares in a UK quoted company, 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 IFRS 13 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	
	2015 £000	2014 £000	2015 £000	2014 £000
UK Government Treasury Bills	15,981	18,775	-	-
	<b>15,981</b>	<b>18,775</b>	<b>-</b>	<b>-</b>

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

**17. Loans and advances to customers**

Group	Gross Amount £000	2015 Impairment Allowance £000	Carrying Value £000	Gross Amount £000	2014 Impairment Allowance £000	Carrying Value £000
Hire Purchase balances	62,814	(1,136)	61,678	52,059	(881)	51,178
Finance lease balances	10,240	(656)	9,584	11,422	(714)	10,708
Unsecured personal loans	4,023	(180)	3,843	3,514	(148)	3,366
Vehicle stocking plans	1,119	-	1,119	1,284	-	1,284
Block discounting	8,935	-	8,935	6,766	-	6,766
Secured commercial loans	4,947	(89)	4,858	7,347	(62)	7,285
Secured personal loans	11,339	-	11,339	8,751	-	8,751
	<b>103,417</b>	<b>(2,061)</b>	<b>101,356</b>	<b>91,143</b>	<b>(1,805)</b>	<b>89,338</b>

Collateral is held, in the form of underlying assets, for HP, 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.

	2015 £000	2014 £000
<b>Specific allowance for impairment</b>		
Balance at 1 January	1,754	3,578
Specific allowance for impairment made	1,255	890
Release of allowances previously made	(130)	(212)
Write-offs	(868)	(2,502)
<b>Balance at 31 December</b>	<b>2,011</b>	<b>1,754</b>

	2015 £000	2014 £000
<b>Collective allowance for impairment</b>		
Balance at 1 January	51	179
Collective allowance for impairment made	2	23
Release of allowances previously made	(3)	(151)
<b>Balance at 31 December</b>	<b>50</b>	<b>51</b>
<b>Total allowances for impairment</b>	<b>2,061</b>	<b>1,805</b>

Advances on preferential terms are available to all Directors, management and staff. As at 31 December 2015 £208,017 (2014: £125,983) 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 four loan exposures exceeded 10.0% of the capital base of the Bank (2014: two loan exposures):

Exposure	Outstanding Balance 2015 £000	Outstanding Balance 2014 £000	Facility limit £000
Block discounting facility	7,345	3,501	12,500

**HP and finance lease receivables**

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

	2015 £000	2014 £000
Less than one year	33,987	30,615
Between one and five years	60,501	50,456
<b>Gross investment in HP and finance lease receivables</b>	<b>94,488</b>	<b>81,071</b>

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

	2015 £000	2014 £000
Less than one year	24,425	22,514
Between one and five years	48,629	40,967
<b>Net investment in HP and finance lease receivables</b>	<b>73,054</b>	<b>63,481</b>

**18. Property, plant and equipment**

Group	Leasehold Improvements £000	IT Equipment £000	Furniture & Equipment £000	Motor Vehicles £000	Total £000
<b>Cost</b>					
As at 1 January 2015	182	1,263	600	80	2,125
Additions	235	205	22	31	493
On acquisition (see note 20)	-	-	1	-	1
Disposals	-	-	-	(54)	(54)
<b>As at 31 December 2015</b>	<b>417</b>	<b>1,468</b>	<b>623</b>	<b>57</b>	<b>2,565</b>
<b>Accumulated depreciation</b>					
As at 1 January 2015	56	893	510	61	1,520
Charge for year	14	132	68	12	226
Disposals	-	-	-	(53)	(53)
<b>As at 31 December 2015</b>	<b>70</b>	<b>1,025</b>	<b>578</b>	<b>20</b>	<b>1,693</b>
<b>Carrying value at 31 December 2015</b>	<b>347</b>	<b>443</b>	<b>45</b>	<b>37</b>	<b>872</b>
Carrying value at 31 December 2014	126	370	90	19	605



## 18. Property, plant and equipment (continued)

Company	Leasehold Improvements £000	IT Equipment £000	Furniture & Equipment £000	Total £000
<b>Cost</b>				
As at 1 January 2015	-	-	-	-
Additions	234	13	15	262
Disposals	-	-	-	-
<b>As at 31 December 2015</b>	<b>234</b>	<b>13</b>	<b>15</b>	<b>262</b>
<b>Accumulated depreciation</b>				
As at 1 January 2015	-	-	-	-
Charge for year	15	-	-	15
Disposals	-	-	-	-
<b>As at 31 December 2015</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>15</b>
<b>Carrying value at 31 December 2015</b>	<b>219</b>	<b>13</b>	<b>15</b>	<b>247</b>
Carrying value at 31 December 2014	-	-	-	-

## 19. Intangible assets

Group	Customer Contracts £000	Intellectual Property Rights £000	Website Development £000	Total £000
<b>Cost</b>				
As at 1 January 2015	-	-	-	-
Additions	-	-	21	21
On acquisition (see note 20)	76	345	-	421
Disposals	-	-	-	-
<b>As at 31 December 2015</b>	<b>76</b>	<b>345</b>	<b>21</b>	<b>442</b>
<b>Accumulated amortisation</b>				
As at 1 January 2015	-	-	-	-
Charge for year	44	-	-	44
Disposals	-	-	-	-
<b>As at 31 December 2015</b>	<b>44</b>	<b>-</b>	<b>-</b>	<b>44</b>
<b>Carrying value at 31 December 2015</b>	<b>32</b>	<b>345</b>	<b>21</b>	<b>398</b>
Carrying value at 31 December 2014	-	-	-	-

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### 20. Investment in Group undertakings

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

Carrying value of investments	Nature of Business	31 December 2015 % Holding	Date of Incorporation	Total 2015 £000	Total 2014 £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
				<b>12,072</b>	<b>12,072</b>

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 and EWA. Interest charged is at the discretion of the lender.

Creation	Maturity	Interest rate	Company 2015 £000	Company 2014 £000
<b>Conister Bank Limited</b>				
25 October 2013	22 October 2020	7.0%	1,000	1,000
11 February 2014	11 February 2024	7.0%	500	500
27 May 2014	27 May 2024	7.0%	500	500
9 July 2014	9 July 2024	7.0%	500	500
17 September 2014	17 September 2026	7.0%	400	400
22 July 2013	22 July 2033	7.0%	1,000	1,000
<b>Edgewater Associates Limited</b>				
14 May 2012	14 May 2017	7.0%	128	128
28 February 2013	28 February 2018	7.0%	50	50
			<b>4,078</b>	<b>4,078</b>

### Goodwill

	Group 2015 £000	Group 2014 £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
	<b>2,344</b>	<b>2,344</b>

### 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 5.0% annual increment, and then discounted using a 12.0% discount factor. The sensitivity of the analysis was tested using additional discount factors of 15.0% and 20.0% on stable profit levels.

**20. Investment in Group undertakings (continued)****Goodwill impairment (continued)**

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 5.0% margin, extrapolated to 10 years using a 5.0% annual increment, and then discounted using a 12.0% discount factor. The sensitivity of the analysis was tested using additional discount factors of 15.0% and 20.0% on varying sales volumes.

There has been no change in the detailed method of measurement for EWA and ECF when compared to 2014. 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 and acquisition of subsidiary**

On 7 August 2014, a joint venture agreement was entered into between Manx Financial Limited ("MFL"), 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. In December 2015, Andrew Flowers disposed of his shares to the parent of MFL, Bradburn Limited, for £500,000 when the net assets of MFL at the time were £1,053,000. This generated a gain on acquisition of the joint venture of £28,000 and MFL became a subsidiary of the Group.

	2015 £000	2015 £000
<b>Fair value of consideration</b>		
Cash (included in creditors and accrued charges)		500
<b>Fair value of assets acquired</b>		
Cash	926	
Loans and advances	649	
Trade and other receivables	78	
	<u>(1,653)</u>	
<b>Fair value of liabilities acquired</b>		
Block creditors	588	
Creditors and accrued charges	9	
	<u>(1,056)</u>	
<b>50% acquired</b>		<u>(528)</u>
<b>Gain on acquisition</b>		<u>(28)</u>

**Acquisition of Incahoot**

On 6 March 2015, the business of Incahoot Limited was acquired by Manx Incahoot Limited, a subsidiary of the Group. Incahoot Limited was in administration at the time and sold its intellectual property rights, a customer contract and property, plant and equipment. Two employees were also transferred under the Transfer of Undertakings (Protection of Employment) Regulations 2006 which carried over £26,000 of unpaid wages.

In exchange for the net assets acquired, Manx Incahoot Limited paid £101,000 in cash and pledged a further 10.0% share of future revenue streams on pipeline listed at the time of acquisition generated within 2 years of purchase, up to a cap of £100,000. No revenue has yet been generated from this pipeline and the Directors believe that it is unlikely that any will. Therefore the contingent consideration has been valued at nil.

# Manx Financial Group PLC

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

#### Acquisition of Incahoot (continued)

	2015 £000	2015 £000
<b>Fair value of consideration</b>		
Cash	101	
Contingent consideration	-	
	<u>101</u>	
<b>Fair value of assets acquired</b>		101
Intellectual property rights (including website)	35	
Fair value increase on intellectual property rights	310	
Customer contract	76	
Property, plant and equipment	1	
	<u>(422)</u>	
<b>Fair value of liabilities acquired</b>		
Unpaid employee wages	26	
	<u>26</u>	<u>(396)</u>
<b>Bargain purchase</b>		<b>(295)</b>

On 12 November 2015, a valuation was conducted by an independent firm of professional advisers on the intellectual property rights acquired for the purpose of including within these financial statements as determined by IFRS 3: *Business Combinations*. The independent firm addressed the three levels of the IFRS fair value hierarchy and concluded that level 3 was most appropriate as the intellectual property rights acquired had no active markets (Level 1), or comparable assets against which to index prices (Level 2). Therefore, the report valued the intellectual property rights acquired based on internally generated data (Level 3) being: costs incurred to date and cash flow projections. The replacement cost approach was determined as £310,500 after tax and the income approach valued the business at £233,701 using a discount factor of 42.5%. The report averaged the two approaches to arrive at a final valuation of £276,000. In addition, the domain name was separately valued as an intangible asset, citing comparable domains sold recently with a range of £6,000 to £35,000.

It is the view of the Directors that only one approach should be used when valuing the assets acquired and that the replacement cost approach is the better of the two due to the uncertainty of the cash flows given its recent acquisition. Thus the replacement cost has been adopted as the basis for the valuation in order to arrive at a reliable estimate. In addition, the Directors believe that the value of the domain name should be valued at the upper end of the range cited given market conditions for this product. Therefore, the value attributed in these financial statements on the assets acquired is £345,500, being £310,500 for the intellectual property and £35,000 for the domain name.

This valuation gave rise to the fair value of assets and liabilities acquired being £295,000 greater than what was paid and consequently in accordance with IFRS 3: *Business Combinations* has been recognised as a gain on bargain purchase in the consolidated income statement as a separate line item.

### 21. Trade and other receivables

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Prepayments and other debtors	857	646	98	62
Depositors Compensation Scheme Receivable	54	54	-	-
VAT recoverable	466	466	-	-
	<u>1,377</u>	<u>1,166</u>	<u>98</u>	<u>62</u>

Included in trade and other receivables is an amount of £466,000 (2014: £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.

**21. Trade and other receivables (continued)**

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 50.0% of costs in respect of HP transactions to a taxable supply and 50.0% 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 and the case was heard by the court of appeal on 17 April 2015 who overturned the Upper Tribunal's decision ruling in favour of VWFS. HMRC have now been given leave to appeal this decision to the Supreme Court and to seek reference to the European Court.

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 case, the Directors are confident that the VAT claimed referred to above will be secured.

**22. Customer accounts**

	2015 £000	2014 £000
Retail customers: term deposits	103,041	98,420
Corporate customers: term deposits	3,287	1,839
	<u>106,328</u>	<u>100,259</u>

**23. Creditors and accrued charges**

	Group		Company	
	2015 £000	2014 £000	2015 £000	2014 £000
Commission creditors	2,313	1,389	-	-
Other creditors and accruals	530	326	12	20
Consideration for acquisition of MFL (see note 20)	500	-	-	-
	<u>3,343</u>	<u>1,715</u>	<u>12</u>	<u>20</u>

**24. Block creditors**

	2015 £000	2014 £000
Drawdown 1 - repayable 25/12/2016, interest payable at 5.6%, secured on assets of MFL	194	-
Drawdown 2 - repayable 25/07/2018, interest payable at 5.6%, secured on assets of MFL	394	-
	<u>588</u>	<u>-</u>

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#### 25. Loan notes

	Notes	Group		Company	
		2015 £000	2014 £000	2015 £000	2014 £000
<b>Related parties</b>					
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
Life Science Developments Limited	LS	500	500	500	500
		<b>3,910</b>	3,910	<b>3,910</b>	3,910
<b>Unrelated parties</b>	<b>UP</b>	<b>3,355</b>	3,255	<b>3,355</b>	3,255
		<b>7,265</b>	7,165	<b>7,265</b>	7,165

**JM** - Two loans, one of £500,000 maturing on 31 July 2017 with interest payable of 7.0% per annum, and one of £1,250,000 maturing on 26 February 2020, paying interest of 6.5% 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.

**BL** - One loan consisting of £1,200,000 maturing on 31 July 2017 with interest payable of 7.0% 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 2020 with interest payable of 6.5% per annum. The loan is convertible at a rate of 9 pence. SR is also entitled to 8.3 million warrants on a previously converted loan note at an exercise price of 6 pence which lapse on 24 October 2017. Arron Banks is a non-executive director and is a major shareholder of SR. John Banks, a Non-executive Director is also a director of SR.

**LS** - One loan of £350,000 maturing on 5 September 2017 with interest payable of 5.0% per annum, and another loan of £150,000 maturing on 3 October 2017 paying interest of 5.0% per annum. Denham Eke is a director of LS.

**UP** - Fifteen loans consisting of an average £223,667, with an average interest payable of 5.6% per annum. The earliest maturity date is 14 July 2016 and the latest maturity is 25 November 2020.

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.

#### 26. 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 FSA in the Isle of Man under the Retirement Benefits Scheme Act 2000. The Scheme is subject to regulation by the FSA 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.

**26. Pension liability (continued)**

In order to assess the sensitivity of the Scheme's pension liability to these risks, sensitivity analyses have been carried out. Each sensitivity analysis is based on changing one of the assumptions used in the calculations, with no change in the other assumptions. The same method has been applied as was used to calculate the original pension liability and the results are presented in comparison to that liability. It should be noted that in practice it is unlikely that one assumption will change without a movement in the other assumptions; there may also be some correlation between some of these assumptions. It should also be noted that the value placed on the liabilities does not change on a straight line basis when one of the assumptions is changed. For example, a 2.0% change in an assumption will not necessarily produce twice the effect on the liabilities of a 1.0% 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 2015 (2014: none).

**Funding policy**

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

The most recent full actuarial valuation was carried out at 1 April 2013, which showed that the market value of the Scheme's assets was £1,283,000 representing 80.0% of the benefits that had accrued to members, after allowing for expected future increases in earnings. As required by IAS 19 this valuation has been updated by the actuary as at 31 December 2015.

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

	2015 £000	2014 £000
<b>Total underfunding in funded plans recognised as a liability</b>		
Fair value of plan assets	1,332	1,345
Present value of funded obligations	(1,666)	(1,733)
	(334)	(388)
<b>Movement in the liability for defined benefit obligations</b>		
	2015 £000	2014 £000
Opening defined benefit obligations at 1 January	1,733	1,497
Benefits paid by the plan	(82)	(62)
Interest on obligations	64	70
Actuarial (gain) / loss	(49)	228
<b>Liability for defined benefit obligations at 31 December</b>	<b>1,666</b>	<b>1,733</b>
<b>Movement in plan assets</b>		
	2015 £000	2014 £000
Opening fair value of plan assets at 1 January	1,345	1,245
Expected return on assets	50	58
Contribution by employer	49	49
Actuarial (loss) / gain	(30)	55
Benefits paid	(82)	(62)
<b>Closing fair value of plan assets at 31 December</b>	<b>1,332</b>	<b>1,345</b>

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26. Pension liability (continued)

	2015 £000	2014 £000
<b>Expense recognised in income statement</b>		
Interest on obligation	64	70
Expected return on plan assets	(50)	(58)
<b>Total included in personnel costs</b>	<b>14</b>	<b>12</b>
<b>Actual return on plan assets</b>	<b>20</b>	<b>113</b>

	2015 £000	2014 £000
<b>Actuarial gain / (loss) recognised in other comprehensive income</b>		
Actuarial (loss) / gain on plan assets	(30)	55
Actuarial gain / (loss) on defined benefit obligations	49	(228)
	<b>19</b>	<b>(173)</b>

<b>The actuarial assumptions used to calculate Scheme liabilities under IAS19 are as follows:</b>	2015 %	2014 %	2013 %
Rate of increase in pension in payment:			
service up to 5 April 1997	-	-	-
service from 6 April 1997 to 13 September 2005	2.7	2.7	3.1
service from 14 September 2005	2.0	2.0	2.1
Rate of increase in deferred pensions	5.0	5.0	5.0
Discount rate applied to scheme liabilities	3.9	3.8	4.8
Inflation	2.8	2.8	3.2

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.

27. Called up share capital

<b>Authorised: Ordinary shares of no par value</b>	<b>Number</b>	
<b>At 31 December 2014 &amp; 2015</b>	<b>150,000,000</b>	

<b>Issued and fully paid: Ordinary shares of no par value</b>	<b>Number</b>	<b>£000</b>
<b>At 31 December 2014 &amp; 2015</b>	<b>102,070,252</b>	<b>18,933</b>

There are a number of convertible loans at 31 December 2015 of £3.41 million (2014: £3.41 million) involving warrants of 28.3 million (31 December 2014: 28.3 million) (see note 25 for further details). The total number of warrants in issue at 31 December 2015 is 36.6 million (2014: 36.6 million) (see note 25 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

	<b>No of Shares 000</b>	<b>Value £000</b>
<b>Share option reserve</b>		
As at 31 December 2014	2,806	142
Grant of options	-	46
Lapses	-	-
<b>As at 31 December 2015</b>	<b>2,806</b>	<b>188</b>



**27. Called up share capital (continued)**

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

- (a) 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).
- (b) 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.

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:

	23 June 2014	25 June 2010
Fair value at date of grant	£0.08	£0.03
Share price	£0.14	£0.11
Exercise price	£0.14	£0.11
Expected volatility	55.0%	47.0%
Option life	3	3
Risk-free interest rate (based on government bonds)	0.5%	2.2%
Forfeiture rate	33.3%	0.0%

**28. Analysis of changes in financing during the year**

	2015 £000	2014 £000
<b>Analysis of changes in financing during the year</b>		
Balance at 1 January	26,098	24,998
Issue of loan notes	100	1,100
	<b>26,198</b>	<b>26,098</b>

The 2015 closing balance is represented by £18.933 million share capital (2014: £18.933 million) and £7.265 million of loan notes (2014: £7.165 million).

**29. Regulator**

The Group is regulated by the Isle of Man Government FSA 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.

**30. 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 £0.031 million (2014: £0.067 million), at normal commercial interest rates in accordance with the standard rates offered by the Bank.

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

The Bank acts as agent bank to a number of customers, for balances totalling £4.0 million (2014: £4.9 million). The Bank invests these customer assets with third party banks on their behalf and in return for this service receives a fee. These balances are not included within the statement of financial position.

All funds held and accounts maintained in connection with the fiduciary services that the Bank offers in 2015 are to companies connected with Jim Mellon and Denham Eke.

**Staff and commercial loans**

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

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# Manx Financial Group PLC

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### 30. Related party transactions (continued)

#### Staff and commercial loans (continued)

Normal commercial loans are made to various companies connected to Jim Mellon and Denham Eke. As at 31 December 2015, £0.132 million of capital and interest was outstanding (2014: £0.193 million).

#### Media promotions services

In 2015, Manx Incahoot Limited provided services to Burnbrae Media Limited, a company associated with Denham Eke and Jim Mellon, for £12,000.

#### 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 in the previous year for £0.439 million. No charge for such services was made in 2015. EWA provides services to the Group in arranging its insurance and defined contribution pension arrangements.

#### Investments

The Bank holds less than 1% equity in the share capital of an investment of which Jim Mellon is a shareholder (note 15). Denham Eke acts as a non-executive director.

#### Subordinated loans

Manx Financial Group PLC has advanced no further subordinated loans in 2015 (2014: £1.9 million) (see note 20).

#### Loan notes

See note 25 for a list of related party loan notes as at 31 December 2015 and 2014.

#### Key management personnel's remuneration including Executive Directors

	2015 £000	2014 £000
Short-term employee benefits	402	397

### 31. Operating leases

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

	2015		2014	
	Leasehold Property £000	Other £000	Leasehold Property £000	Other £000
Less than one year	193	-	317	-
Between one and five years	782	-	493	-
Over five years	594	-	213	-
	<u>1,569</u>	-	<u>1,023</u>	-

### 32. Subsequent events

There are no significant subsequent events to report.





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