



MANX FINANCIAL
GROUP PLC

ANNUAL REPORT 2016

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

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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.



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.



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 £213 million.

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



Manx Incahoot Limited provides Employee Benefit solutions to the UK and Isle of Man employment market. This product was launched in November 2016.



Jim Mellon
Chairman

Dear Shareholders,

When I wrote to you in September 2016 presenting the Interim Results, I had every expectation that the full year would see a return to the previous levels of profitability. In the event, although net interest income has increased by 18% to £16.0 million (2015: £13.5 million), profit before tax for the year has fallen by 33% to £1.5 million (2015: £2.3 million). As I previously commented, the main reason for this reduction was the significant increase in the amounts paid away by our principal subsidiary, Conister Bank Limited (the "Bank"), to our UK introducers in commissions and the settlement of early terminations - a total of £9.1 million (2015: £7.0 million).

However, whilst this overall result is disappointing, our second half profit before tax at £0.8 million (2015: £1.3 million) showed a respectable improvement of 17% over the first half as we changed our Bank's lending mix to encompass a greater proportion of direct business, thus lessening our reliance on third-party introductions. Also, as a concomitant, we are experiencing a fall in early terminations. I anticipate that the full benefit of this change will be reflected in 2017 and already we are seeing considerable progress by the end of 2017 first quarter results. I will return to this point later.

I am also encouraged that the second half operating income of £4.7 million (2015: £4.2 million) is the highest that we have ever achieved. Thus, I am confident that by re-focussing the lending mix, we have taken the correct steps to build a base for a profitable future.

Manx Financial Group PLC

As stated, profit before income tax for the year was £1.5 million (2015: £2.3 million) on a net interest income of £16.0 million (2015: £13.5 million). Our key metrics remain positive: our return on equity was 10% (2015: 17%), which remains within the range of that of our peer group. Our lending grew by 15% (2015: 13%) over the year. The level of performing loans remains impressive at 94%, a testament to our prudent lending policy.

Turning to the balance sheet, our loan book grew by £14.7 million to £116.1 million (2015: £101.4 million) and our deposit base increased to £126.0 million (2015: £106.3 million), a growth of 15% and 18% respectively. In turn, our equity increased by 8% to £13.2 million (2015: £12.1 million).

It is important to remember that almost the entirety of this equity is used to support the regulatory capital base of the Bank. Each year, as we grow the Bank's balance sheet, we require ever increasing Tier 1 capital, being the regulatory measure of applicable assets, to support that growth. One of the Board's main aims is to reach the optimum size whereby we become

self-supporting in our regulatory capital requirements, thus achieving a prudential balance between growth and the future ability to distribute any excess capital to our shareholders. It is important to remember that the cash and near-cash figure of £6.1 million (2015: £7.2 million) sitting on the balance sheet is solely available for further lending, representing as it does a mismatch between customers' deposits and advances.

Certain loans supporting the Bank's capital provided by the principal shareholders - mostly from myself - will come up for renewal during the course of this year. I have indicated to the Board that I will renew these loans and, as before, the independent directors, in conjunction with our advisors, will determine fair and equitable renewal terms for the benefit of both parties.

We made one acquisition in 2016, when on 23 December our wholly owned subsidiary, Edgewater Associates Limited, acquired the MBL book of Independent Financial Advisory ("IFA") business. This acquisition created the largest IFA operation on the Isle of Man and I can report that the integration of the two businesses is proceeding as planned. The full benefit of this acquisition will materialise in future periods.

Conister Bank Limited

Our strategy of providing our existing products to new markets and developing new products to our existing markets is creating consistent growth. During the year on the Isle of Man, we launched a unique bridging loan product, and an Approved Partner lending programme focused on SMEs - both attracting considerable interest. In the UK, we launched a PCP product in conjunction with one of our long-standing partners. We have entered the Jersey secured lending market on a local regulated basis, and we are currently evaluating a Hire Purchase product for the Irish market and intend to launch an Isle of Man PCP product shortly.

With regard to the UK, we see continuing growth opportunities in both hire and lease purchase, block discounting and secured personal loans. Indeed, we will look to increase our UK presence during 2017 and beyond, by significantly broadening our lending distribution. However, our view of the UK unsecured lending market, now representing less than 6% of our total advances, has led us to become more cautious as the macro environment of increasing inflation and unprecedented levels of unsecured consumer debt will, we believe, drive future arrears. Furthermore, the competitive environment for this product has worsened with more liquidity driving down yields which is counter intuitive when the wider market dynamics are considered. Our risk appetite continues to be prudent and, therefore, we access this market through our capital indemnified partners which partially insulates us from suffering a loss. We test our entire loan book each month and it is a reflection of our careful credit scoring that our arrears' profile continues at a low level.

With loan advances increasing by 25% to £72.5 million (2015: £58.0 million), interest income increased by 16% to £19.1 million (2015: £16.5 million). Our net interest income margin showed a small increase to 83% (2015: 82%) as our cost of funds continued to decrease. Operating income, however, decreased by 0.2% to £6.9 million (2015: £7.0 million) as commissions paid to our introducers grew by 30% to £9.1 million (2015: £7.0 million). Our personnel and other costs increased by £0.9 million in the year, largely driven by additional headcount to support our forecasted plans for growth.

New lending increased our loan book by 15% to £115.2 million (2015: £100.6 million). The most notable contributors to this positive performance were direct lending in the Isle of Man, our direct UK broker network and our block lending product. Provisions have increased by only 5% (despite a 15% increase in net loans) to £2.2 million (2015: £2.1 million) which represents 1.9% of the net loan book (2015: 2.1%). As I reported previously, we have ceased funding UK hand-held card terminals and our legal action continues to ensure we recover any losses to the fullest extent possible. This discontinued lending stream will be materially run off by the end of 2017.

The Bank's asset base grew by 17% to £147.5 million (2015: £126.2 million) and total equity increased by 2% to £13.0 million (2015: £12.6 million).

As I reported in the Interim Accounts, under the HMRC's Partial Exemption Special Method, we have increased our VAT debtor by a further £0.3 million, to a total of £0.8 million. Following further discussions and correspondence with the Isle of Man Customs & Excise, the Board remains confident that the VAT debtor claimed will be secured, reinforced by a very recent ruling by the Supreme Court that, despite referring the entire matter to the European Court of Justice, a 50% allowance is both fair and equitable. As our VAT debtor reflects 50% of the recoverable amount, this can only be positive news.

Finally, I am pleased to welcome both Douglas Grant as the new Managing Director of the Bank, and James Smeed who takes his place as the Finance Director and joins the Board. I am pleased to note that both appointments are well deserved internal promotions, demonstrating that the Bank now offers meaningful career path at all levels.

Edgewater Associates Limited

Our IFA business continues to grow, supported by its general insurance and loan brokering units. Indeed, 2016 was the most profitable year so far, with pre-MBL acquisition profit for the year increasing by 149% to £0.4 million (2015: £0.1 million) on a 6% increased turnover of £1.5 million (2015: £1.4 million). Edgewater Associates unconsolidated total assets have grown by 93% to £2.3 million (2015: £1.2 million) and equity has increased by 40% to £1.3 million (2015: £0.9 million).

One pleasing fact to note is that assets under management have grown by 38% to £213 million following the MBL acquisition (2015: £154 million).

The December 2016 MBL acquisition will enhance future profitability and brings with it talented staff who are already making a significant contribution to the business. As part of the overall acquisition transaction, we exercised the Lazenby Knox option at the beginning of 2017 which will further enhance profits and add to what is already the Isle of Man's largest IFA business. We are well positioned to add other local IFA books to this business subject to strict due diligence.

Other operating subsidiaries

As I reported previously our foreign exchange advisory service, Manx FX Limited, is now trading profitably and continues to tender for new accounts and to look for additional ways to enhance its niche Isle of Man position.

Our IT-enriched employee benefit subsidiary, Manx Incahoot Limited, was successfully re-launched at the Olympia UK Employee Benefit Show in London during November 2016. Following which, it is in advanced negotiations with a number of companies to provide their staff with tailor-made incentives to promote increased loyalty. I hope to be able to announce more on this in the near future.

Outlook

Following the internal publication of our Quarter 1, 2017 figures, I am confident we are well set for a meaningful increase in profit at both the Interim and full-year stage. Whilst I am the first to admit that our 2016 performance appears lack-lustre, we were able to implement certain changes in the second half which will serve us well in the next twelve months. We have placed additional emphasis on new business generation which is bearing fruit. We have moved Edgewater into being a main player in the Isle of Man market. We are reviewing our IT systems with a view to a further upgrade. But most importantly, we are considering a significant increase in our presence in the UK and elsewhere, bolstered by our belief that Brexit offers enhanced opportunities. This year will see a simplification of our capital structure and will be the year that we do more to reach out to the investing public.

Finally, it remains for me to thank you, our shareholders; our excellent executive and staff who contribute so much to the development of business; and our customers, be they depositors or borrowers, for your continued loyalty.

Jim Mellon
Executive Chairman
28 April 2017

Executive Directors



Jim Mellon (60) ‡
Executive Chairman

Executive Chairman Jim Mellon is a well-known and successful entrepreneur, author and economic commentator, starting his career in fund management and now including biopharma, property, mining and information technology amongst his many investments. Jim 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 chairman of the Regent Pacific Group, quoted on the Hong Kong Stock Exchange.

Appointment

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



Denham Eke (65) ‡
Chief Executive Officer

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 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.



Douglas Grant (52) ‡
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. He is Managing Director of Conister Bank Limited.

Non-executive Directors



Alan Clarke (66) ‡ † *
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 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 (69) ‡ † * ≠
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 (48) ‡
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.

Non-executive Directors



Neil Duggan (56) ‡ * ≠
Non-executive Director

Neil Duggan 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.

Company secretary



Lesley Crossley (49)
Company Secretary

Lesley Crossley is a Fellow of the Chartered Institute of Secretaries and Administrators and has 30 years of wide ranging experience in the financial services industry both in the UK and Isle of Man. Prior to joining Manx Financial Group PLC she held the position of Company Secretary for Scottish Provident International based on the Isle of Man.

Appointment

Appointed as Company Secretary on 29 September 2008.

* Member of the Audit, Risk and Compliance Committee

† Member of the Remuneration Committee

‡ Member of the Nominations Committee

≠ Independent Non-executive Director

Advisers

Registered Office

Clarendon House
Victoria Street
Douglas
Isle of Man IM1 2LN

Registered Agent

CW Corporate Services
Limited
Bank Chambers
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Douglas
Isle of Man IM1 1LB

Legal Advisers

As to Isle of Man law
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Douglas
Isle of Man IM1 1LD

As to English law
Hill Dickinson LLP
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Independent Auditors

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Heritage Court
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Douglas
Isle of Man IM99 1HN

Principal Bankers

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135 Bishopsgate
London EC2M 3UR

Consulting Actuaries

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Marquis House
Isle of Man Business Park
Douglas
Isle of Man IM2 2QZ

Pension Fund

Investment Manager
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(Isle of Man) Limited
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Samuel Harris House
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Douglas
Isle of Man IM1 1AJ

Nominated Advisor and Broker

Beaumont Cornish
Limited
2nd 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 which includes investor relations information and contact details.

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 2016.

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, prepaid cards 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 (2015: 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 April 2017 are:

	Number	% of issued capital
Rene Nominees (IOM) Limited ¹	26,288,992	25.76
Jim Mellon	17,635,332	17.28
Lynchwood Nominees Limited	10,338,045	10.18
Island Farms Limited	4,222,319	4.14

¹ Together with other holdings, Arron Banks, a former Director of the Group, is beneficially interested in 30,339,825 ordinary shares (29.72%) of 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 April 2017.

Directors and Directors' share interests

Details of current Directors are set out on pages 4 and 5. Juan Kelly resigned on 28 March 2017.

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

	Number 18/04/17	Number 31/12/16	Number 31/12/15
Jim Mellon ¹	17,635,332	17,635,332	17,635,332
John Banks ²	2,336,833	2,336,833	2,336,833
David Gibson ³	1,721,433	1,721,433	1,547,227
Douglas Grant	505,821	505,821	505,821
Alan Clarke	52,149	52,149	52,149

¹ 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 for the benefit of Jim Mellon.

² 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.

³ Comprises 1,721,433 Ordinary Shares held by TD Direct Investing Nominees (Europe) Limited for the benefit of David Gibson.

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

	Number 18/04/17	Number 31/12/16	Number 31/12/15
Douglas Grant	1,042,466	1,042,466	1,042,466

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 2016 there were 73 members of staff (2015: 64), of whom 6 were part-time (2015: 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 2016 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 Executive Directors, 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 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 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.

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. Executive Directors and representatives from compliance and risk, 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.

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.

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 April 2016 (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.

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.

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: *Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.*

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 2016 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 general meetings 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 28 April 2017 and signed on its behalf by:

Jim Mellon
Executive Chairman
28 April 2017

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 2016 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:

Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.

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 and are not contracted.

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 3 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. Committee members do not take 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 awarded across the Group 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 Group report. An analysis of Directors' emoluments is as follows:

Directors' emoluments

	Remuneration/ Fees £	Performance Related Pay £	Pension £	2016 Total £	2015 Total £
Executives					
Denham Eke	25,000	-	-	25,000	25,000
Douglas Grant	150,300	33,700	15,020	199,020	188,866
Juan Kelly ¹	154,186	26,000	15,408	195,594	192,515
Jim Mellon	25,000	-	-	25,000	25,000
Non-Executives					
John Banks	25,000	-	-	25,000	25,000
Alan Clarke	40,000	-	-	40,000	38,958
Neil Duggan ²	40,000	-	-	40,000	30,000
David Gibson	40,000	-	-	40,000	38,958
Don McCrickard ³	-	-	-	-	18,750
Aggregate emoluments	499,486	59,700	30,428	589,614	583,047

¹ Juan Kelly resigned on 28 March 2017.

² Neil Duggan was appointed on 1 July 2015.

³ Don McCrickard retired on 30 June 2015.

Approval

This report was approved by the Board of Directors on 28 April 2017 and signed on its behalf by:

Alan Clarke

Chairman of the Remuneration Committee
28 April 2017

Manx Financial Group PLC

Statement of Directors' Responsibilities

in respect of the Directors' Report and the financial statements

12

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 2016 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 2016 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 £865,000, comprising a debtor balance of £752,000 in respect of retrospective VAT and an amount of £113,000 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

28 April 2017

Manx Financial Group PLC

Consolidated Income Statement

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For the year ended 31 December	Notes	2016 £000	(Note 33) 2015 £000
Interest income	6	19,369	16,545
Interest expense	10	<u>(3,368)</u>	<u>(3,002)</u>
Net interest income		16,001	13,543
Fee and commission income		1,660	1,527
Profit on joint venture	20	-	28
Fee and commission expense		(1,266)	(792)
Commission sharing schemes	3(t)	<u>(7,840)</u>	<u>(6,196)</u>
Net trading income		8,555	8,110
Other operating income		198	166
Terminal funding	3(v)	<u>(154)</u>	<u>157</u>
Operating income		8,599	8,433
Personnel expenses		(3,935)	(3,515)
Other expenses	7	(2,706)	(2,385)
Provision for impairment on loan assets	8	(447)	(397)
Depositors' Compensation Scheme recovery	9	-	10
Depreciation	18	(246)	(226)
Amortisation and impairment of intangibles	19	(80)	(44)
VAT recovery	21	295	-
Realised gains on available for sale financial assets	16	71	80
Unrealised (loss) / gain on financial assets carried at fair value	15	(6)	30
Gain on acquisition of subsidiary	20	-	28
Bargain purchase	20	-	295
Profit before tax payable	10	<u>1,545</u>	<u>2,309</u>
Tax payable	11	<u>(244)</u>	<u>(207)</u>
Profit for the year		1,301	2,102
Basic earnings per share (pence)	12	1.27	2.06
Diluted earnings per share (pence)	12	0.87	1.29

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

The Directors believe that all results derive from continuing activities.

Manx Financial Group PLC
Consolidated Statement of Other Comprehensive Income

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For the year ended 31 December	Notes	2016 £000	(Note 33) 2015 £000
Profit for the year		1,301	2,102
Other comprehensive income:			
Items that will be reclassified to profit or loss			
Losses on available for sale financial instruments taken to equity	16	(8)	-
Items that will never be reclassified to profit or loss			
Actuarial (losses) / gains on defined benefit pension scheme taken to equity	26	<u>(316)</u>	<u>19</u>
Total comprehensive income for the period attributable to owners		<u>977</u>	<u>2,121</u>
Basic earnings per share (pence)	12	0.96	2.08
Diluted earnings per share (pence)	12	0.68	1.30

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	
		2016 £000	2015 £000	2016 £000	2015 £000
Assets					
Cash and cash equivalents	14	6,129	7,156	-	100
Financial assets at a fair value through profit or loss	15	70	77	-	-
Available for sale financial instruments	16	23,991	15,981	-	-
Loans and advances to customers	17	116,053	101,356	-	-
Commissions receivable		332	361	-	-
Property, plant and equipment	18	719	872	207	247
Intangible assets	19	1,316	398	-	-
Investment in Group undertakings	20	-	-	12,072	12,072
Amounts due from Group undertakings	20	-	-	296	285
Trade and other receivables	21	1,732	1,377	29	98
Subordinated loan	20	-	-	5,178	4,078
Deferred tax asset	11	-	83	-	-
Goodwill	20	2,344	2,344	-	-
Total assets		152,686	130,005	17,782	16,880
Liabilities					
Customer accounts	22	125,952	106,328	-	-
Creditors and accrued charges	23	2,975	3,343	82	12
Block creditors	24	1,390	588	-	-
Amounts owed to Group undertakings	20	-	-	2,499	2,874
Loan notes	25	8,545	7,265	8,545	7,265
Pension liability	26	614	334	-	-
Deferred tax liability	11	40	-	-	-
Total liabilities		139,516	117,858	11,126	10,151
Equity					
Called up share capital	27	18,933	18,933	18,933	18,933
Profit and loss account		(5,763)	(6,786)	(12,277)	(12,204)
Total equity		13,170	12,147	6,656	6,729
Total liabilities and equity		152,686	130,005	17,782	16,880

The financial statements were approved by the Board of Directors on 28 April 2017 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	2016 £000	2015 £000
RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS			
Profit before tax on continuing activities		1,545	2,309
Unrealised loss / (gain) on financial assets carried at fair value		6	(30)
Gain on disposal of property, plant and equipment		-	(12)
Profit on joint venture		-	(28)
Gain on acquisition of subsidiary	20	-	(28)
Depreciation	18	246	226
Amortisation and impairment of intangibles	19	80	44
Bargain purchase	20	-	(295)
Actuarial (loss) / gain on defined benefit pension scheme taken to equity	26	(316)	19
Increase / (decrease) in pension liability	26	280	(54)
Share-based payment expense	27	46	46
Increase in trade and other receivables		(355)	(208)
Increase in trade and other payables		47	1,168
Decrease / (increase) in commission debtors		29	(35)
		1,608	3,122
Net cash inflow from trading activities		1,608	3,122
Increase in loans and advances to customers		(14,697)	(11,369)
Increase in deposit accounts		19,624	6,069
		6,535	(2,178)
Cash inflow / (outflow) from operating activities		6,535	(2,178)
CASH FLOW STATEMENT			
Cash flows from operating activities			
Cash inflow / (outflow) from operating activities		6,535	(2,178)
Taxation paid		(36)	(6)
		6,499	(2,184)
Net cash inflow / (outflow) from operating activities		6,499	(2,184)
Cash (outflow) / inflow from investing activities			
Purchase of property, plant and equipment	18	(93)	(493)
Purchase of intangible assets	19	(50)	(21)
Acquisition of Incahoot Limited business	20	-	(101)
Acquisition of Manx Financial Limited	20	(500)	-
Acquisition of MBL business	19	(948)	-
(Purchase) / sale of available for sale financial instruments	16	(8,017)	2,794
Sale of property, plant and equipment		-	12
Cash acquired on acquisition of subsidiary	20	-	926
		(9,608)	3,117
Net cash (outflow) / inflow from investing activities		(9,608)	3,117
Cash flows from financing activities			
Receipt of loan notes	25	1,280	100
Increase borrowings from block creditors		802	-
		2,082	100
Net cash inflow from financing activities		2,082	100
(Decrease) / increase in cash and cash equivalents		(1,027)	1,033
Included in cash flows are:			
Interest received - cash amounts		18,628	17,203
Interest paid - cash amounts		(3,260)	(2,906)

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	2016 £000	2015 £000
Balance as at 1 January	18,933	(6,786)	12,147	9,980
Profit for the year	-	1,301	1,301	2,102
Other comprehensive income	-	(324)	(324)	19
Transactions with owners:				
Share-based payment expense (see notes 10 and 27)	-	46	46	46
Balance as at 31 December	18,933	(5,763)	13,170	12,147

For the year ended 31 December Company	Share Capital £000	Retained Earnings £000	2016 £000	2015 £000
Balance as at 1 January	18,933	(12,204)	6,729	6,778
Loss for the year	-	(119)	(119)	(95)
Transactions with owners:				
Share-based payment expense (see notes 10 and 27)	-	46	46	46
Balance as at 31 December	18,933	(12,277)	6,656	6,729

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 2016 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 2015 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 2016:

- *IFRS 14 Regulatory Deferral Accounts;*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11);*
- *Investment Entities: Applying the Consideration Exception (Amendments to IFRS 10, 12 and IAS 28);*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38);*
- *Equity Method in Separate Financial Statements (Amendments to IAS 27);*
- *Disclosure Initiative (Amendments to IAS 1); and*
- *Annual Improvements to IFRSs 2012-2014 Cycle - various standards.*

No significant changes following 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 live 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 and lists	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, 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 asset 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, block creditors and accrued charges. Customer accounts are recognised immediately upon receipt of cash from the customer. Interest payable on customer deposits is provided for using the interest rate prevailing for the type of account.

(h) 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 high quality 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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3. Significant accounting policies (continued)

(o) New standards and interpretations not yet adopted

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

New/revised International Accounting Standards/International Financial Reporting Standards (IAS/IFRS)	Effective date (accounting periods commencing on or after)
<i>Disclosure initiative (Amendments to IAS 7)</i>	1 January 2017
<i>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)</i>	1 January 2017
<i>Annual improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 12 Disclosure of Interests in Other Entities)</i>	1 January 2017
<i>IFRS 15 Revenue from Contracts with Customers</i>	1 January 2018
<i>IFRS 9 Financial Instruments</i>	1 January 2018
<i>Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)</i>	1 January 2018
<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)</i>	1 January 2018
<i>Transfers of Investment Property (Amendments to IAS 40)</i>	1 January 2018
<i>Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 1 First-time Adoption of IFRSs and IAS 28 Investments in Associates and Joint Ventures)</i>	1 January 2018
<i>IFRIC 22 Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
<i>IFRS 16 Leases</i>	1 January 2019

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, defined benefit pension valuation 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.

(v) Terminal funding

In September 2014, the Bank discontinued funding handheld payment devices (referred to as Terminal Funding) due to the volume of write offs. Ever since, the book is being run off whilst the Bank vigorously pursues historical write offs. A decision was made by the Board this year to permanently cease funding and wind up the book upon the final repayment date of August 2019.

	2016 £000	(note 33) 2015 £000
Interest income	601	1,011
Fee and commission expense	(166)	(192)
Provision for impairment on loan assets	(589)	(662)
	<u>(154)</u>	<u>157</u>

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.

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4. Risk and capital management (continued)

(a) Risk management (continued)

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").

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, unsecured personal loans, secured commercial loans, block discounting and stocking plan loans. It is also exposed to credit risk with regard to cash balances and trade and other receivables.

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:

	2016 £000	2015 £000
Carrying amount	116,053	101,356
Individually impaired ¹		
Grade A	-	-
Grade B	-	-
Grade C	3,010	2,916
Gross value	3,010	2,916
Allowance for impairment	(2,099)	(2,011)
Carrying value	911	905
Collective allowance for impairment	(57)	(50)
Past due but not impaired		
Less than 1 month	2,558	3,070
1 month but less than 2 months	1,314	1,507
2 months but less than 3 months	575	397
3 months and over	1,146	630
Carrying value	5,593	5,604
Neither past due nor impaired	109,606	94,897

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

4. Risk and capital management (continued)**(a) Risk management (continued)****i) Credit risk (continued)****Management of credit risk (continued)****Impaired loans**

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

Past due but not impaired loans

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

Allowances for impairment

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

Write-off policy

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

Collateral

The Group holds collateral in the form of the underlying assets (typically private and commercial vehicles, plant and machinery) as security for HP, finance leases, vehicle stocking plans, block discounting and secured commercial loan balances, which are sub-categories of loans and advances to customers. In addition, the commission share schemes have an element of capital indemnified, 2016: 54.4% of loans and advances (2015: 57.6%). 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, UK or Channel Islands 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 was one introducer that accounted for more than 20% of the Bank's total lending portfolio at the end of 31 December 2016 (2015: two introducers).

ii) Liquidity risk

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

Management of liquidity risk

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

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

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4. Risk and capital management (continued)

(a) Risk management (continued)

(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 2016	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	2,831	4,601	8,257	8,079	35,517	53,280	18,024	-	130,589
Other liabilities	3,026	90	198	301	2,509	3,787	3,691	614	14,216
Total liabilities	5,857	4,691	8,455	8,380	38,026	57,067	21,715	614	144,805

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
Total liabilities	5,665	1,234	2,418	4,412	26,567	56,920	26,919	334	124,469

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 2016	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
Assets									
Cash & cash equivalents	6,129	-	-	-	-	-	-	-	6,129
Available for sale financial instruments	-	6,499	6,499	10,993	-	-	-	-	23,991
Customer accounts receivable	4,198	3,067	7,650	10,037	18,675	54,074	17,704	648	116,053
Commission debtors	29	110	193	-	-	-	-	-	332
Other assets	70	-	-	-	-	-	-	6,111	6,181
Total assets	10,426	9,676	14,342	21,030	18,675	54,074	17,704	6,759	152,686
Liabilities									
Customer accounts	2,840	4,597	8,235	8,028	34,988	50,931	16,333	-	125,952
Other liabilities	3,028	39	104	159	2,276	3,754	3,590	614	13,564
Total liabilities	5,868	4,636	8,339	8,187	37,264	54,685	19,923	614	139,516

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
Assets									
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
Total assets	9,320	4,853	13,602	14,992	16,746	47,742	16,782	5,968	130,005
Liabilities									
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
Total liabilities	5,656	1,203	2,339	4,263	25,941	53,951	24,171	334	117,858

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 2016 and 2015, 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 £70,000 at 31 December 2016 (2015: £77,000) 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 2016	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	6,129	-	-	-	-	-	-	-	6,129
Available for sale financial instruments	-	6,499	6,499	10,993	-	-	-	-	23,991
Customer accounts receivable	4,198	3,067	7,650	10,037	18,675	54,074	17,704	648	116,053
Commission debtors	29	110	193	-	-	-	-	-	332
Other assets	70	-	-	-	-	-	-	6,111	6,181
Total assets	10,426	9,676	14,342	21,030	18,675	54,074	17,704	6,759	152,686
Liabilities									
Customer accounts	2,840	4,597	8,235	8,028	34,988	50,931	16,333	-	125,952
Other liabilities	3,028	39	104	159	2,276	3,754	3,590	614	13,564
Total capital and reserves	-	-	-	-	-	-	-	13,170	13,170
Total liabilities and equity	5,868	4,636	8,339	8,187	37,264	54,685	19,923	13,784	152,686
Interest rate sensitivity gap	4,558	5,040	6,003	12,843	(18,589)	(611)	(2,219)	(7,025)	-
Cumulative	4,558	9,598	15,601	28,444	9,855	9,244	7,025	-	-

4. Risk and capital management (continued)

(a) Risk management (continued)

(iv) Market risk (continued)

Interest risk re-pricing table (continued)

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
Assets									
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
Total assets	13,975	13,362	14,992	16,746	47,742	16,782	894	5,512	130,005
Liabilities									
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
Total liabilities and equity	3,516	2,339	4,263	25,941	53,951	24,171	334	15,490	130,005
Interest rate sensitivity gap	10,459	11,023	10,729	(9,195)	(6,209)	(7,389)	560	(9,978)	-
Cumulative	10,459	21,482	32,211	23,016	16,807	9,418	9,978	-	-

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 (2015: 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 2016	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	4,558	5,040	6,003	12,843	(18,589)	(611)	(2,219)	(7,025)	-
Weighting	0.000	0.003	0.007	0.014	0.027	0.054	0.115	0.000	-
£000	-	15	42	180	(502)	(33)	(255)	-	(553)

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)

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 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment securities				
Government bonds	23,991	-	-	23,991
Equities	70	-	-	70
	<u>24,061</u>	<u>-</u>	<u>-</u>	<u>24,061</u>

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 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total fair values £000	Total carrying amount £000
Assets					
Cash and cash equivalents	-	6,129	-	6,129	6,129
Loans and advances to customers	-	116,053	-	116,053	116,053
Commissions receivable	-	332	-	332	332
Trade and other receivables	-	1,732	-	1,732	1,732
	-	124,246	-	124,246	124,246
Liabilities					
Customer accounts	-	125,952	-	125,952	125,952
Creditors and accrued charges	-	2,975	-	2,975	2,975
Block creditors	-	1,390	-	1,390	1,390
Loan notes	-	8,545	-	8,545	8,545
	-	138,862	-	138,862	138,862

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, UK and Channel Islands. 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 2016	Asset and Personal Finance £000	Manx Incahoot £000	Conister Card Services £000	Edgewater Associates £000	Investing Activities £000	Total £000
Net interest income	16,001	-	-	-	-	16,001
Operating income	7,047	81	(106)	1,465	112	8,599
Profit/(loss) before tax payable	1,787	(205)	(223)	371	(185)	1,545
Capital expenditure	69	52	-	970	-	1,091
Total assets	148,523	418	2	1,546	2,197	152,686

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5. Segmental analysis (continued)

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	13,543	-	-	-	-	13,543
Operating income	6,929	84	(98)	1,369	149	8,433
Profit/(loss) before tax payable	2,299	203	(71)	148	(270)	2,309
Capital expenditure	173	122	-	44	274	613
Total assets	128,357	447	123	580	498	130,005

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

	2016 £000	2015 £000
Professional and legal fees	858	654
Marketing costs	167	161
IT costs	425	339
Establishment costs	362	547
Communication costs	61	66
Travel costs	79	75
Bank charges	136	115
Insurance	112	115
Irrecoverable VAT	238	228
Other costs	268	85
	2,706	2,385

8. Allowance for impairment

The charge in respect of specific allowances for impairment comprises:

	2016 £000	(note 33) 2015 £000
Specific impairment allowances made	915	593
Reversal of allowances previously made	(475)	(195)
Total charge for specific provision for impairment	440	398

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

	2016 £000	(note 33) 2015 £000
Collective impairment allowances made	12	2
Release of allowances previously made	(5)	(3)
Total charge / (credit) for collective allowances for impairment	7	(1)
Total charge for allowances for impairment	447	397

9. Depositors' Compensation Scheme

	2016 £000	2015 £000
Receipt in respect of the Isle of Man Government Depositors' Compensation Scheme	-	10

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 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:

	2016 £000	2015 £000
Interest expense payable to depositors	2,795	2,544
Interest expense payable on loan notes	475	429
Interest expense payable to block funders	98	29
Profit on sale of fixed assets	-	(12)
Share options expense	46	46
Directors' remuneration	304	297
Directors' fees	195	202
Directors' pensions	30	30
Directors' performance related pay	60	54
Auditors' remuneration: as Auditors current year	78	86
non-audit services	38	19
Pension cost defined benefit scheme	13	14
Operating lease rentals for property	231	342

11. Tax expense

	2016 £000	2015 £000
Current tax expense		
Current year	114	21
Changes to estimates for prior years	7	(15)
	<u>121</u>	<u>6</u>
Deferred tax expense		
Origination and reversal of temporary differences	24	6
Utilisation of previously recognised tax losses	78	197
Changes to estimates for prior years	21	(2)
	<u>123</u>	<u>201</u>
Total tax expense	<u>244</u>	<u>207</u>

	2016 £000		2015 £000	
Reconciliation of effective tax rate				
Profit before tax on continuing operations		1,545		2,309
Tax using the Banking division's domestic tax rate	10.0%	155	10.0%	231
Effect of tax rates in foreign jurisdictions	1.5%	24	0.4%	8
Non-deductible expenses	1.8%	28	0.6%	15
Tax exempt income	(0.4)%	(6)	(0.8)%	(18)
Timing differences in current year	(0.6)%	(9)	(0.8)%	(18)
Origination and reversal of temporary differences in deferred tax	1.6%	24	0.3%	6
Changes to estimates for prior years	1.8%	28	(0.7)%	(17)
Total tax expense	<u>15.8%</u>	<u>244</u>	<u>9.0%</u>	<u>207</u>

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11. Tax expense (continued)

The main rate of corporation tax in the Isle of Man is 0.0% (2015: 0.0%). However the profits of the Group's Manx banking activities are taxed at 10.0% (2015: 10.0%). The profits of the Group's subsidiaries that are subject to UK corporation tax are taxed at a rate of 20.0% (2015: 20.0%).

The value of tax losses carried forward reduced to nil and there is now a timing difference related to accelerated capital allowances resulting in a £40,000 liability (2015: £83,000 asset). This resulted in an expense of £123,000 (2015: £201,000) to the income statement.

12. Earnings per share

	2016	2015
Profit for the year	£1,301,000	£2,102,000
Weighted average number of ordinary shares in issue	102,070,252	102,070,252
Basic earnings per share (pence)	1.27	2.06
Diluted earnings per share (pence)	0.87	1.29
Total comprehensive income for the period	£977,000	£2,121,000
Weighted average number of ordinary shares in issue	102,070,252	102,070,252
Basic earnings per share (pence)	0.96	2.08
Diluted earnings per share (pence)	0.68	1.30

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.

	2016	2015
Reconciliation of weighted average number of ordinary shares in issue between basic and diluted earnings per share		
As per basic earnings per share	102,070,252	102,070,252
Number of shares issued if all convertible loan notes were exchanged for equity (note 25)	61,500,000	61,500,000
Dilutive element of warrants if taken up (note 25)	12,733,968	17,641,990
Dilutive element of share options if exercised (note 27)	-	22,665
As per dilutive earnings per share	176,304,220	181,234,907
Reconciliation of earnings between basic and diluted earnings per share		
As per basic earnings per share	£1,301,000	£2,102,000
Interest expense saved if all convertible loan notes were exchanged for equity (note 25)	£230,150	£230,150
As per dilutive earnings per share	£1,531,150	£2,332,150

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 £119,000 (2015: £95,000).

14. Cash and cash equivalents

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Cash at bank and in hand	6,129	7,156	-	100
Short-term deposits	-	-	-	-
	6,129	7,156	-	100

Cash at bank includes an amount of £63,000 (2015: £140,000) 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	
	2016 £000	2015 £000	2016 £000	2015 £000
UK Government Treasury Bills	23,991	15,981	-	-
	23,991	15,981	-	-

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	2016 Impairment Allowance £000	Carrying Value £000	Gross Amount £000	2015 Impairment Allowance £000	Carrying Value £000
Hire Purchase balances	61,952	(1,309)	60,643	62,814	(1,136)	61,678
Finance lease balances	14,779	(673)	14,106	10,240	(656)	9,584
Unsecured personal loans	6,638	(162)	6,476	4,023	(180)	3,843
Vehicle stocking plans	1,366	-	1,366	1,119	-	1,119
Block discounting	13,213	-	13,213	8,935	-	8,935
Secured commercial loans	2,257	(12)	2,245	4,947	(89)	4,858
Secured personal loans	18,004	-	18,004	11,339	-	11,339
	118,209	(2,156)	116,053	103,417	(2,061)	101,356

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.

	2016 £000	2015 £000
Specific allowance for impairment		
Balance at 1 January	2,011	1,754
Specific allowance for impairment made	915	1,255
Release of allowances previously made	(475)	(130)
Write-offs	(352)	(868)
Balance at 31 December	2,099	2,011

	2016 £000	2015 £000
Collective allowance for impairment		
Balance at 1 January	50	51
Collective allowance for impairment made	12	2
Release of allowances previously made	(5)	(3)
Balance at 31 December	57	50
Total allowances for impairment	2,156	2,061

Advances on preferential terms are available to all Directors, management and staff. As at 31 December 2016 £306,895 (2015: £208,017) 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 three loan exposures, both in connection with block discounting lending, exceeded 10.0% of the capital base of the Bank (2015: four loan exposures):

Exposure	Outstanding Balance 2016 £000	Outstanding Balance 2015 £000	Facility limit £000
Block discounting facility	9,302	7,345	11,000

HP and finance lease receivables

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

	2016 £000	2015 £000
Less than one year	35,537	33,987
Between one and five years	60,542	60,501
Gross investment in HP and finance lease receivables	96,079	94,488

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

	2016 £000	2015 £000
Less than one year	26,562	24,425
Between one and five years	50,168	48,629
Net investment in HP and finance lease receivables	76,730	73,054

18. Property, plant and equipment

Group	Leasehold Improvements £000	IT Equipment £000	Furniture & Equipment £000	Motor Vehicles £000	Total £000
Cost					
As at 1 January 2016	417	1,468	623	57	2,565
Additions	-	87	6	-	93
Disposals	-	-	-	-	-
As at 31 December 2016	417	1,555	629	57	2,658
Accumulated depreciation					
As at 1 January 2016	70	1,025	578	20	1,693
Charge for year	59	164	10	13	246
Disposals	-	-	-	-	-
As at 31 December 2016	129	1,189	588	33	1,939
Carrying value at 31 December 2016	288	366	41	24	719
Carrying value at 31 December 2015	347	443	45	37	872

18. Property, plant and equipment (continued)

Company	Leasehold Improvements £000	IT Equipment £000	Furniture & Equipment £000	Total £000
Cost				
As at 1 January 2016	234	13	15	262
Additions	-	-	-	-
Disposals	-	-	-	-
As at 31 December 2016	234	13	15	262
Accumulated depreciation				
As at 1 January 2016	15	-	-	15
Charge for year	38	1	1	40
Disposals	-	-	-	-
As at 31 December 2016	53	1	1	55
Carrying value at 31 December 2016	181	12	14	207
Carrying value at 31 December 2015	219	13	15	247

19. Intangible assets

Group	Customer Contracts & Lists £000	Intellectual Property Rights £000	Website Development £000	Total £000
Cost				
As at 1 January 2016	76	345	21	442
Additions	-	-	50	50
Acquisitions	948	-	-	948
Disposals	-	-	-	-
As at 31 December 2016	1,024	345	71	1,440
Accumulated amortisation				
As at 1 January 2016	44	-	-	44
Charge for year	32	-	-	32
Impairment (see note 20)	-	48	-	48
Disposals	-	-	-	-
As at 31 December 2016	76	48	-	124
Carrying value at 31 December 2016	948	297	71	1,316
Carrying value at 31 December 2015	32	345	21	398

Acquisition of MBL

On 23 December 2016, EWA acquired the majority of the Isle of Man's IFA business held by Knox Financial Services Limited ("KFSL") carrying a trading name of MBL. The initial acquisition includes approximately 4,000 clients together with 6 members of staff. The basis of consideration is in part contingent, as it is determined by 4 times renewal income received in the first 12 months of ownership, reduced down by any clawbacks in the same period. The final value cannot fall below £800,000. EWA entered into a loan agreement with Conister Bank Limited (see note 30 for terms) and paid the non-refundable minimum of £800,000 and a further £200,000 into an escrow account until the final valuation has been determined. When the value has been finalised, any surplus or shortfall will be settled.

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19. Intangible assets (continued)

Acquisition of MBL (continued)

By reference to the renewal income received by KFSL in the 12 months prior to disposal, an estimate of £236,906 has been assumed for the next 12 months, which would generate a consideration sum of £947,624. Therefore, EWA has accounted for this transaction by recognising an intangible asset of £947,624 and a receivable of £52,376 (see note 21) of the monies held in escrow. The fair value of the assets acquired is considered to be of the same amount as the sum estimated to be paid and principally relates to customer contracts. The period by which these contracts are amortised over is estimated to be 18.75 years given the average duration of EWA's existing portfolio for renewal income.

In tandem, both parties entered into an option agreement, exercisable within three months from the transaction date, for EWA to acquire the remainder of the vendor's IFA business which includes approximately 150 clients. This option was exercised on 18 January 2017. The fair value of this option agreement was estimated to be nil.

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 2016 % Holding	Date of Incorporation	Total 2016 £000	Total 2015 £000
Conister Bank Limited	Asset and Personal Finance	100	05/12/1935	10,067	10,067
Edgewater Associates Limited	Wealth Management	100	24/12/1996	2,005	2,005
TransSend Holdings Limited	Holding Company for Prepaid Card Division	100	05/11/2007	-	-
Bradburn Limited	Holding Company	100	15/05/2009	-	-
				12,072	12,072

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

Subordinated loans

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

Creation	Maturity	Interest rate	Company 2016 £000	Company 2015 £000
Conister Bank Limited				
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
25 October 2013	22 October 2033	7.0%	1,000	1,000
23 September 2016	23 September 2036	7.0%	1,100	-
Edgewater Associates Limited				
14 May 2012	14 May 2017	7.0%	128	128
28 February 2013	28 February 2018	7.0%	50	50
			5,178	4,078

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

	Group 2016 £000	Group 2015 £000
Edgewater Associates Limited ("EWA")	1,849	1,849
ECF Asset Finance PLC ("ECF")	454	454
Three Spires Insurance Services Limited ("Three Spires")	41	41
	2,344	2,344

Goodwill impairment

The goodwill is considered to have an indefinite life and is reviewed on an annual basis by comparing its estimated recoverable amount with its carrying value.

The estimated recoverable amount in relation to the goodwill generated on the purchase of EWA is based on the forecasted 3 year cash flow projections, extrapolated to 10 years using a 2.0% 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.

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 2.0% 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 2015. 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.

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.

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20. Investment in Group undertakings (continued)

Acquisition of Incahoot (continued)

	2015 £000	2015 £000
Fair value of consideration		
Cash	101	
Contingent consideration	-	
	<u>101</u>	
Fair value of assets acquired		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>	
Fair value of liabilities acquired		
Unpaid employee wages	26	
		<u>(396)</u>
Bargain purchase		(295)

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. The Directors believe that the assets acquired will have an enduring benefit to the company and therefore have adopted an indefinite life as the appropriate basis for determining its useful life for amortisation purposes.

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.

On 9 December 2016, this valuation was conducted again which led to a reduced valuation of £262,474 for the intellectual property. This created an impairment of £48,026. There were no adverse trends arising from comparable market disposals of domain names to warrant any impairment to this intangible.

21. Trade and other receivables

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Prepayments and other debtors	874	857	29	98
VAT recoverable	752	466	-	-
Depositors Compensation Scheme Receivable	54	54	-	-
Monies held in escrow from MBL acquisition (see note 19)	52	-	-	-
	<u>1,732</u>	<u>1,377</u>	<u>29</u>	<u>98</u>

21. Trade and other receivables (continued)

Included in trade and other receivables is an amount of £752,000 (2015: £466,000) relating to a reclaim of value added tax ("VAT"). Conister Bank Limited, as the Group VAT registered entity, has for some time considered the VAT recovery rate being obtained by the business was neither fair nor reasonable, specifically regarding the attribution of part of the residual input tax relating to the HP business not being considered as a taxable supply. Queries have been raised with the Isle of Man Government Customs & Excise Division ("C&E"), and several reviews of the mechanics of the recovery process were undertaken by the Company's professional advisors.

The decision of the First-Tier Tax Tribunal released 18 August 2011 in respect of Volkswagen Financial Services (UK) Limited ("VWFS") v HM Revenue & Customs (TC01401) ("VWFS Decision") added significant weight to the case put by the Bank and a request for a revised Partial Exemption Special Method was submitted in December 2011. The proposal put forward by the Bank was that the revised method would allocate 50.0% 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. A secondary claim was also made to cover periods Q4 2012 to Q4 2016 for the value of £295,000.

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 appealed this decision to the Supreme Court, which has referred the issue to the European Court of Justice.

The Bank's total exposure in relation to this matter is £865,000, comprising the debtor balance referred to above plus an additional £113,000 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

	2016 £000	2015 £000
Retail customers: term deposits	124,398	103,041
Corporate customers: term deposits	1,554	3,287
	125,952	106,328

23. Creditors and accrued charges

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Commission creditors	2,504	2,313	-	-
Other creditors and accruals	363	332	82	12
Taxation creditors	108	198	-	-
Consideration for acquisition of MFL (see note 20)	-	500	-	-
	2,975	3,343	82	12

24. Block creditors

	2016 £000	2015 £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	248	394
Drawdown 3 - repayable 08/03/2019, interest payable at 6.5%, secured on assets of MFL	1,142	-
	1,390	588

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25. Loan notes

	Notes	Group		Company	
		2016 £000	2015 £000	2016 £000	2015 £000
Related parties					
J Mellon	JM	1,750	1,750	1,750	1,750
Burnbrae Limited	BL	1,200	1,200	1,200	1,200
Southern Rock Insurance Company Limited	SR	460	460	460	460
Life Science Developments Limited	LS	350	500	350	500
		3,760	3,910	3,760	3,910
Unrelated parties	UP	4,785	3,355	4,785	3,355
		8,545	7,265	8,545	7,265

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. Denham Eke is a director of LS.

UP - Twenty one loans consisting of an average £227,857, with an average interest payable of 5.3% per annum. The earliest maturity date is 1 October 2017 and the latest maturity is 3 November 2021.

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 2016 (2015: 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 2016, which showed that the market value of the Scheme's assets was £1,379,000 representing 80.7% 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 2016.

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

	2016 £000	2015 £000
Total underfunding in funded plans recognised as a liability		
Fair value of plan assets	1,420	1,332
Present value of funded obligations	(2,034)	(1,666)
	(614)	(334)
Movement in the liability for defined benefit obligations		
	2016 £000	2015 £000
Opening defined benefit obligations at 1 January	1,666	1,733
Benefits paid by the plan	(68)	(82)
Interest on obligations	64	64
Actuarial loss / (gain)	372	(49)
Liability for defined benefit obligations at 31 December	2,034	1,666
Movement in plan assets		
	2016 £000	2015 £000
Opening fair value of plan assets at 1 January	1,332	1,345
Expected return on assets	51	50
Contribution by employer	49	49
Actuarial gain / (loss)	56	(30)
Benefits paid	(68)	(82)
Closing fair value of plan assets at 31 December	1,420	1,332

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26. Pension liability (continued)

Expense recognised in income statement	2016 £000	2015 £000
Interest on obligation	64	64
Expected return on plan assets	(51)	(50)
Total included in personnel costs	13	14
Actual return on plan assets	107	20

Actuarial (loss) / gain recognised in other comprehensive income	2016 £000	2015 £000
Actuarial gain / (loss) on plan assets	56	(30)
Actuarial (loss) / gain on defined benefit obligations	(372)	49
	(316)	19

Plan assets consist of the following	2016 %	2015 %
Equity securities	47	27
Corporate bonds	16	23
Government bonds	25	41
Cash	7	3
Other	5	6
	100	100

The actuarial assumptions used to calculate Scheme liabilities under IAS19 are as follows:	2016 %	2015 %	2014 %
Rate of increase in pension in payment:			
service up to 5 April 1997	-	-	-
service from 6 April 1997 to 13 September 2005	3.1	2.7	2.7
service from 14 September 2005	2.1	2.0	2.0
Rate of increase in deferred pensions	5.0	5.0	5.0
Discount rate applied to scheme liabilities	2.7	3.9	3.8
Inflation	3.2	2.8	2.8

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

Authorised: Ordinary shares of no par value	Number
At 31 December 2015 & 2016	150,000,000

Issued and fully paid: Ordinary shares of no par value	Number	£000
At 31 December 2015 & 2016	102,070,252	18,933

There are a number of convertible loans at 31 December 2016 of £3.41 million (2015: £3.41 million) involving warrants of 28.3 million (31 December 2015: 28.3 million) (see note 25 for further details). The total number of warrants in issue at 31 December 2016 is 36.6 million (2015: 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.

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	2015 £000
Analysis of changes in financing during the year		
Balance at 1 January	26,198	26,098
Issue of loan notes	1,280	100
	27,478	26,198

The 2016 closing balance is represented by £18.933 million share capital (2015: £18.933 million) and £8.545 million of loan notes (2015: £7.265 million).

29. Regulator

The Group is regulated by the Isle of Man FSA and is 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 £0.076 million (2015: £0.031 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 £3.4 million (2015: £4.0 million). The Bank invests these customer assets with third party banks on their behalf and in return for this service receives a fee. These balances are not included within the statement of financial position.

All funds held and accounts maintained in connection with the fiduciary services that the Bank offers in 2016 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.

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 2016, £0.401 million of capital and interest was outstanding (2015: £0.132 million).

Intercompany recharges

Various intercompany recharges are made during the course of the year as a result of the Bank settling debts in other Group companies. EWA provides services to the Group in arranging its insurance and defined contribution pension arrangements.

Loan advance to EWA

On 14 December 2016, a loan advance was made to EWA by the Bank in order to provide the finance required to acquire MBL (see note 19). The advance was for £700,000 at an interest rate of 8% repayable over 6 years. A negative pledge was given by EWA to not encumber any property or assets or enter into an arrangement to borrow any further monies.

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 £1.1m of subordinated loans in 2016 to the Bank (2015: none) (see note 20).

Loan notes

See note 25 for a list of related party loan notes as at 31 December 2016 and 2015.

Key management personnel's remuneration including Executive Directors

	2016 £000	2015 £000
Short-term employee benefits	414	402

31. Operating leases

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

	2016		2015	
	Leasehold Property £000	Other £000	Leasehold Property £000	Other £000
Less than one year	187	-	193	-
Between one and five years	801	-	782	-
Over five years	390	-	594	-
	<u>1,378</u>	<u>-</u>	<u>1,569</u>	<u>-</u>

32. Subsequent events

On 18 January 2017, an option was exercised to acquire an IFA business which includes 150 clients. The price of the acquisition will be calculated by four times the renewal income received over the 12 month period subsequent to completion. The price is estimated to be £75,000.

33. Comparative figures

The Consolidated Income Statement for the previous year has been restated in order to present Terminal funding, as analysed by note 3(v), in a consistent manner to the current year.



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