



MANX FINANCIAL  
GROUP PLC

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INTERIM REPORT 2009

# Welcome to Manx Financial Group PLC

## Integrity through innovation and independence

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

### Who we are



Manx Financial Group PLC ("MFG") (formerly Conister Financial Group PLC ("CFG")) was formed as part of a "Scheme of Arrangement" in January 2008 to establish a parent company for Conister Trust Limited (formerly Conister Trust PLC) and TransSend Holdings Limited. MFG is listed on the Alternative Investment Market ("AIM").

The shares of Conister Trust were one of the first companies to be admitted to trading on the AIM in 1995 and as part of the "Scheme of Arrangement", the shares were replaced on AIM by those of Manx Financial Group PLC.



Conister Trust Limited ("the Bank") is a licensed, independent bank in the Isle of Man and a full member of the MasterCard® network.

Since its inception in 1935, the Bank has assisted successive generations with a variety of products and services, including taking deposits and providing credit facilities for personal and business use.

The Bank has also diversified into the insurance premium finance market and fiduciary deposits for corporate and high net worth clients.



TransSend is the Group's prepaid card division. TransSend provides business clients with payment solutions that easily integrate into their existing payment process to produce highly controllable, cost-effective ways of moving funds and create new revenue opportunities.

The division is now positioned as a prepaid card issuer in order to leverage the strengths of the existing group, and has recently built further strategic alliances to maximise distribution channels and revenues.

### Contents

Highlights	01
Chairman's Statement	02
Condensed Consolidated Statement of Comprehensive Income	04
Condensed Consolidated Statement of Financial Position	05
Condensed Consolidated Statement of Cash Flows	06
Condensed Consolidated Statement of Changes in Equity	08
Notes to the Consolidated Financial Statements	09



Tower of Refuge, Conister Rock, Douglas Bay, Isle of Man

## Highlights

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### *MFG, the Holding Company:*

- ⊙ consolidated financial performance improved by £1.0 million as the half year loss attributable to the owners has reduced to £1.8 million (June 2008: loss of £2.8 million).
- ⊙ 22% improvement in the consolidated cost to income ratio compared with the first half year of 2008.
- ⊙ Group central costs have reduced by 49% to £0.7m compared with the first half year of 2008.
- ⊙ Company headcount reduced by 14% since December 2008 following a reorganisation of the Isle of Man operational processes.

### *Conister Trust Limited, the Bank:*

- ⊙ strongly capitalised with a Risk Asset Ratio of 17.8% (December 2008: 17.6%) and a Tier 1 capital ratio of 17.1% (December 2008: 15.6%), higher than the UK's four leading retail banks.
- ⊙ Risk Weighted Assets managed down by 21%.
- ⊙ Ratio of loans to deposits has improved by 8.9% as funding position strengthened.
- ⊙ Loss before tax of £0.7 million (June 2008: loss of £0.1 million) mainly due to the lower interest rate environment, a prudent impairment provision policy and a provision for the Depositors' Compensation Scheme.
- ⊙ Headcount reduced by 14% since December 2008 following the closure of UK branch offices and a reorganisation of the Isle of Man operational processes.
- ⊙ New banking system was successfully implemented in July as planned and within budget.

### *TransSend Holdings Limited, the prepaid cards business:*

- ⊙ incurred £0.2 million of further restructuring costs to facilitate profitability.
- ⊙ Investment necessary reduced to £0.3 million (June 2008: £1.5 million).
- ⊙ Repositioned as a prepaid card issuer and new strategic relationships with programme managers to widen spectrum of opportunities for prepaid cards.
- ⊙ Headcount reduced by 81% since December 2008 following the closure of the UK operation and the reorganisation of the Isle of Man operational processes.



**Jim Mellon**  
Chairman

### **Delivering in unprecedented circumstances**

The global financial landscape continues to foster uncertainty and industry conditions have changed both fundamentally and permanently. During this period our strategy has been to continue to position the Group conservatively — we have no exposure to either the mortgage or inter-bank wholesale funding markets — whilst we focus on enhancing our core capabilities. This path will enable us to deliver a sustainable platform for long-term growth and a return to profitability.

In achieving this goal, we remain committed to improving our systems, rationalising our costs and concentrating on what we do best. We are focused on lending on and from the Isle of Man, both to individuals and corporates, where the island's economy is performing well and, at this stage, we have confidence that 2009/10 will be another year of sustained growth. The Isle of Man has built diversity and strengthened its economy over the last quarter of a century which has provided considerable protection to the current economic downturn. We anticipate that this stable platform and the island's status as a well-regulated global finance centre will provide significant opportunities. At the same time we continue to minimise our exposure to legacy issues and maintain a conservative approach to provisioning.

Despite the adverse global economic environment, the careful positioning of the Group has led to an improved financial result year-on-year. The Bank continues to be strongly capitalised and with clear liquidity. Our independence has been of considerable benefit, together with our rigorous approach to risk management and we have maintained a strong control on costs.

We intend to build on this momentum with a clear strategy of diversifying into complementary product lines to augment our current customer offering.

### **Financial review**

I am pleased to report we improved our financial performance for the first six months of the year as losses reduced to £1.8 million (2008: £2.8 million), an improvement of £1.0 million, (36%). This improved result was achieved despite the continued deterioration in market conditions and a considerable reduction in our operating income.

The improvement relates to cost savings within the Group: in particular, the central overhead reduced by £0.6 million and the performance of our restructured prepaid card division improved by £1.2 million. These positive results were partially offset as net interest income in our banking division decreased by £0.9 million as yields dropped as a result of the lower Bank of England base rate and a fall in income from asset financing.

Costs have been tightly controlled, with a 22% improvement in the cost to income ratio.

### **Conister Trust**

As planned, we have reduced the balance sheet total assets by £3.5 million since the end of 2008 and have managed our Risk Weighted Assets down by 21%. The ratio of loans to deposits has improved by 8.9% as we have strengthened our funding position. With a capital ratio of 17.8% we have capital resources in excess of our regulatory minima and continue to have a capital ratio higher than the UK's four leading retail banks.

As part of the Group-wide rebranding exercise in October 2009, Conister Trust Limited will change its name to Conister Bank Limited which more accurately reflects the range of banking services we will be providing.

Mediation regarding litigation funding has been concluded and it is now expected that run-off can continue to a conclusion.

The new banking system was successfully implemented in July as planned and within budget. The system will enhance both the products and service we offer our customers and will lead to further income opportunities.

**TransSend**

The repositioning of TransSend to becoming a prepaid card issuer sponsor is now complete and we have entered into strategic relationships with a number of programme managers that will provide coverage over the spectrum of opportunities for prepaid cards. Card issuance under this model will commence in the second half of 2009.

**Board changes and people**

We have further strengthened our Board by appointing Nick Sheard, who will retain his responsibilities as the Group's Head of Risk and Compliance, as a main Board Director. Compliance is embedded within our culture and Nick's appointment will strengthen our decision making process during these turbulent and challenging economic times.

As always, I would like to thank our staff for their continuing commitment and dedication to the Group, our customers and our shareholders.

**Outlook**

We anticipate the positive trends in our trading performance in the first half of the year to continue provided the environment does not change significantly. Thus, year-on-year, we expect our second half's results to show a continued improvement.

Whilst we will continue to consolidate to provide further stability to the Group, we also intend to actively consider external opportunities where these complement our core competencies. It is clear that organic growth alone is inadequate to maximise shareholder value. These opportunities will inevitably include considering strategic acquisitions. I will, of course, keep shareholders informed as any initiative crystallises.

**Jim Mellon**

Executive Chairman  
15 September 2009

**Manx Financial Group PLC**  
**Condensed Consolidated Statement of Comprehensive Income**

04

		<b>6 months to</b> <b>30 June</b> <b>2009</b> <b>£000</b> <b>(unaudited)</b>	6 months to 30 June 2008 £000 (unaudited)	12 months to 31 December 2008 £000 (audited)
Interest income	2	2,931	3,725	7,140
Interest expense	3	<b>(1,880)</b>	(1,733)	(3,552)
<b>Net interest income</b>	3	<b>1,051</b>	1,992	3,588
Fee and commission expense		<b>(226)</b>	(322)	(709)
<b>Net trading income</b>		<b>825</b>	1,670	2,879
Other operating income		<b>392</b>	298	805
Programme costs		<b>(338)</b>	(147)	(505)
Foreign exchange gain		—	—	31
<b>Operating income</b>	3	<b>879</b>	1,821	3,210
Personnel expenses		<b>(1,226)</b>	(2,414)	(4,421)
Depreciation		<b>(26)</b>	(42)	(77)
Other expenses		<b>(879)</b>	(1,979)	(3,366)
Provision for impairment on loan assets		<b>(396)</b>	(292)	(1,363)
Realised loss on sale of available-for-sale financial assets		—	—	(454)
Dividend income from financial assets carried at fair value through profit or loss		—	—	6
Unrealised gain/(loss) on financial assets carried at fair value through profit or loss		<b>94</b>	(77)	(162)
<b>Loss before specific items</b>	3	<b>(1,554)</b>	(2,983)	(6,627)
Net impairment loss on available-for-sale financial instruments		—	—	(9,638)
Depositors' Compensation Scheme	4	<b>(89)</b>	—	—
Restructuring costs	5	<b>(165)</b>	—	(1,425)
Project costs	6	—	—	(494)
Legal costs related to net impairment of available-for-sale financial instruments		—	—	(76)
Scheme of Arrangement costs	7	—	(45)	(45)
<b>Loss before income tax expenses</b>		<b>(1,808)</b>	(3,028)	(18,305)
Income tax expenses		—	—	—
<b>Loss for the year on continuing operations</b>		<b>(1,808)</b>	(3,028)	(18,305)
<b>Other comprehensive income:</b>				
Available-for-sale gains taken to equity		<b>7</b>	271	—
Gain/(loss) on pension scheme		<b>40</b>	(48)	(43)
<b>Total comprehensive income/(loss) for the period attributable to owners</b>		<b>(1,761)</b>	(2,805)	(18,348)
<b>Basic and diluted loss per share (pence)</b>	8	<b>(2.85)</b>	(5.92)	(32.80)

**Manx Financial Group PLC**  
**Condensed Consolidated Statement of Financial Position**

05

		<b>30 June</b>	30 June	31 December
		<b>2009</b>	2008	2008
		<b>£000</b>	£000	£000
	Notes	<b>(unaudited)</b>	(unaudited)	(audited)
<b>Assets</b>				
Cash and cash equivalents		<b>12,428</b>	15,303	20,589
Financial assets at a fair value through profit or loss	9	<b>230</b>	221	136
Available-for-sale financial instruments	10	<b>10,493</b>	5,305	—
Loans and advances to customers	11	<b>48,549</b>	56,333	55,916
Property, plant and equipment		<b>164</b>	338	192
Trade and other receivables	12	<b>1,144</b>	676	1,383
<b>Total assets</b>		<b>73,008</b>	78,176	78,216
<b>Liabilities</b>				
Customer accounts		<b>63,691</b>	57,600	66,058
Creditor and accrued charges	13	<b>2,077</b>	1,075	3,094
Pension liability		<b>221</b>	335	314
<b>Total liabilities</b>		<b>65,989</b>	59,010	69,466
<b>Equity</b>				
Called up share capital		<b>15,854</b>	14,079	15,849
Share premium account		<b>6,142</b>	2,732	6,141
Retained earnings		<b>(14,977)</b>	2,355	(13,240)
<b>Total equity</b>		<b>7,019</b>	19,166	8,750
<b>Total liabilities and equity</b>		<b>73,008</b>	78,176	78,216

**Manx Financial Group PLC**  
**Condensed Consolidated Statement of Cash Flows**

06

	<b>30 June</b>	30 June	31 December
	<b>2009</b>	2008	2008
	<b>£000</b>	£000	£000
	<b>(unaudited)</b>	(unaudited)	(audited)
<b>Reconciliation of loss before taxation to operating cash flows</b>			
Loss before income tax expense	<b>(1,808)</b>	(3,028)	(18,305)
Realised loss on financial assets held at fair value through profit or loss	—	—	454
Movement in financial assets held at fair value through profit or loss	<b>(94)</b>	77	162
Net impairment loss on financial assets	—	—	9,638
Dividend income from financial assets carried at fair value through profit or loss	—	—	(6)
Loss on disposal of property, plant and equipment	<b>2</b>	17	104
Depreciation charge	<b>26</b>	42	77
Share-based payment expense	<b>24</b>	367	315
Pension scheme	<b>(53)</b>	(30)	(34)
(Decrease)/increase in trade debtors	<b>(239)</b>	394	(651)
(Decrease)/increase in trade creditors	<b>(1,017)</b>	(463)	1,057
<b>Net cash outflow from trading activities</b>	<b>(2,681)</b>	(2,624)	(7,189)
Decrease in loans and advances to customers	<b>7,367</b>	404	821
(Decrease)/increase in deposit accounts	<b>(2,367)</b>	(4,373)	4,085
<b>Cash inflow/(outflow) from operating activities</b>	<b>2,319</b>	(6,593)	(2,283)



**Manx Financial Group PLC**  
**Condensed Consolidated Statement of Cash Flows** (continued)

07

	Notes	30 June 2009 £000 (unaudited)	30 June 2008 £000 (unaudited)	31 December 2008 £000 (audited)
<b>CASH FLOW STATEMENT</b>				
<b>Cash flows from operating activities</b>				
Cash inflow/(outflow) from operating activities		2,319	(6,593)	(2,283)
Taxation paid		—	—	(1)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>2,319</b>	<b>(6,593)</b>	<b>(2,284)</b>
<b>Cash flows from investing activities</b>				
Purchase of tangible fixed assets		—	(106)	(96)
Purchase of available-for-sale financial instruments	10	<b>(10,486)</b>	(908)	(909)
Sale of financial assets at fair value through profit or loss		—	—	127
Dividend income from financial assets carried at fair value		—	—	346
<b>Net cash outflow from investing activities</b>		<b>(10,486)</b>	<b>(1,014)</b>	<b>(532)</b>
<b>Cash flows from financing activities</b>				
Issue of ordinary share capital		6	5	—
Issue of subordinated liabilities		—	—	500
<b>Net cash inflow from financing activities</b>		<b>—</b>	<b>5</b>	<b>500</b>
<b>Decrease in cash and cash equivalents</b>		<b>(8,161)</b>	<b>(7,602)</b>	<b>(2,316)</b>
Cash and cash equivalents at beginning of period		20,589	22,905	22,905
<b>Cash and cash equivalents at end of period</b>		<b>12,428</b>	<b>15,303</b>	<b>20,589</b>

Manx Financial Group PLC  
Condensed Consolidated Statement of Changes in Equity

08

	Share capital £000	Share premium £000	Retained earnings £000	Total 30 June 2009 £000	Total 30 June 2008 £000	Total 31 Dec 2008 £000
Balance brought forward	15,849	6,141	(13,240)	8,750	17,473	17,473
Loss for the period/year	—	—	(1,808)	(1,808)	(3,028)	(18,305)
Other comprehensive income	—	—	47	47	223	(43)
<b>Transactions with owners:</b>						
Arising on shares issued in the period/year	5	1	—	6	4,131	9,310
Share-based payment expense	—	—	24	24	367	315
<b>Balance carried forward</b>	<b>15,854</b>	<b>6,142</b>	<b>(14,977)</b>	<b>7,019</b>	<b>19,166</b>	<b>8,750</b>

**1. Preparation of the interim statements**

The interim financial statements are unaudited. The financial information included in this interim financial report for the six months ended 30 June 2008 was also unaudited and subject to a review opinion by the Company's Independent Auditor.

The interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". The accounting policies (unless stated otherwise) have been applied consistently with those presented in the Annual Report for the twelve months to 31 December 2008 and comply with IFRSs and IFRIC interpretations applicable to companies reporting under IFRS.

**2. Interest income**

	<b>30 June 2009 £000 (unaudited)</b>	30 June 2008 £000 (unaudited)	31 December 2008 £000 (audited)
<b>Interest income comprises:</b>			
Interest income — asset financing	<b>2,861</b>	3,282	6,447
Interest income — deposits	<b>70</b>	443	693
<b>Total</b>	<b>2,931</b>	3,725	7,140

**3. Segmental analysis**

Segment information is presented in respect of the Group's business segments. The Directors consider that the Group currently operates in one geographic segment, the Isle of Man and UK. The primary format, business segments, is based on the Group's management and internal reporting structure. The Directors consider that the Group operates in three product orientated segments in addition to its investing activities: Asset and Personal Finance (including provision of HP contracts, leases, personal loans and premium finance); Litigation Finance; and a prepaid card and BIN sponsorship division, TransSend. The Group ceased to provide new Litigation Finance lending in June 2007.

Manx Financial Group PLC  
Notes to the Consolidated Financial Statements

10

3. Segmental analysis continued

For the six months to 30 June 2009	Asset and Personal Finance £000	Litigation Finance £000	TransSend £000	Investing Activities £000	Total 30 June 2009 £000
Interest income — asset financing	2,732	129	—	—	2,861
Interest income — deposits	70	—	—	—	70
Interest expense	(1,839)	(41)	—	—	(1,880)
Net interest income	963	88	—	—	1,051
Operating income	782	98	(1)	—	879
Provision for impairment	(145)	(251)	—	—	(396)
Loss before unallocated items	(394)	(272)	(321)	97	(890)
Group central costs	—	—	—	—	(664)
<b>Loss before specific items</b>					<b>(1,554)</b>
Capital expenditure	—	—	—	—	—
<b>Total assets</b>	<b>71,181</b>	<b>1,266</b>	<b>331</b>	<b>230</b>	<b>73,008</b>

For the six months to 30 June 2008	Asset and Personal Finance £000	Litigation Finance £000	TransSend £000	Investing Activities £000	Total 30 June 2008 £000
Interest income — asset financing	3,128	79	75	—	3,282
Interest income — deposits	443	—	—	—	443
Interest expense	(1,691)	(42)	—	—	(1,733)
Net interest income	1,880	37	75	—	1,992
Operating income	1,647	33	141	—	1,821
Provision for impairment	(228)	(64)	—	—	(292)
Loss before unallocated items	26	(184)	(1,456)	(77)	(1,691)
Group central costs	—	—	—	—	(1,292)
<b>Loss before specific items</b>					<b>(2,983)</b>
Capital expenditure	129	—	62	—	191
<b>Total assets</b>	<b>73,992</b>	<b>1,956</b>	<b>2,007</b>	<b>221</b>	<b>78,176</b>

## 3. Segmental analysis continued

For the twelve months to 31 December 2008	Asset and Personal Finance £000	Litigation Finance £000	TransSend £000	Investing Activities £000	Total 31 December 2008 £000
Interest income	6,123	324	—	—	6,447
Deposit interest income	605	—	88	—	693
Interest expense	(3,391)	(161)	—	—	(3,552)
Net interest income	3,337	163	88	—	3,588
Operating income	2,842	187	181	—	3,210
Provision for impairment	(948)	(415)	—	—	(1,363)
Loss before unallocated items	(460)	(737)	(3,721)	(610)	(5,528)
Group central costs	—	—	—	—	(1,099)
<b>Loss before specific items</b>					(6,627)
Capital expenditure	96	—	—	—	96
<b>Total assets</b>	76,419	1,503	158	136	78,216

**Manx Financial Group PLC**  
**Notes to the Consolidated Financial Statements**

12

**4. Depositors' Compensation Scheme**

		<b>30 June</b>	30 June	31 December
		<b>2009</b>	2008	2008
		<b>£000</b>	£000	£000
	Notes	<b>(unaudited)</b>	(unaudited)	(audited)
Provision in respect of Kaupthing Singer & Friedlander (Isle of Man) Limited	13	<b>150</b>	—	—
Recovery in respect of Bank of Credit & Commerce International SA	12	<b>(61)</b>	—	—
		<b>89</b>	—	—

On 27 May 2009, the Isle of Man Government Depositors' Compensation Scheme ("the Scheme") was activated in connection with the liquidation of Kaupthing Singer & Friedlander (Isle of Man) Limited. A provision of £150,000 has been made in respect of the estimated amount payable over the life of the Scheme.

On 3 August 2009, the Bank recovered £61,054 from the Scheme in respect of The Bank of Credit & Commerce International SA, a Luxembourg banking company, the Bank of Credit and Commerce Overseas Limited, a Cayman bank, and various other companies in the BCCI Group which closed in July 1991.

## 5. Restructuring costs

Restructuring costs comprise: the cost of closure of the UK TransSend operation, the costs of closure of two branch offices in the UK, and the reorganisation of the Isle of Man operational processes.

	<b>30 June 2009 £000 (unaudited)</b>	30 June 2008 £000 (unaudited)	31 December 2008 £000 (audited)
<b>Closure of UK TransSend operation</b>			
Administration expenses	—	—	320
Onerous programme costs	—	—	127
Redundancy costs	<b>165</b>	—	117
	<b>165</b>	—	564
<b>Closure of UK branch offices</b>			
Redundancy costs	—	—	61
<b>Reorganisation of the Isle of Man operational processes</b>			
Redundancy costs	—	—	429
Director's exgratia cost	—	—	264
Director's share option cost	—	—	107
	—	—	800
	<b>165</b>	—	1,425

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# Manx Financial Group PLC

## Notes to the Consolidated Financial Statements

# 14

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### 6. Project costs

	<b>30 June 2009 £000 (unaudited)</b>	30 June 2008 £000 (unaudited)	31 December 2008 £000 (audited)
Costs of TransSend sale	—	—	133
Costs of potential acquisition	—	—	361
	<u>—</u>	<u>—</u>	<u>494</u>

### 7. Scheme of Arrangement costs

Conister Trust Limited (formerly PLC), following an Isle of Man Court sanctioned Scheme of Arrangement, became a wholly owned subsidiary of Manx Financial Group PLC (formerly Conister Financial Group PLC) with effect from 31 January 2008. The legal and professional expenses attributable to this corporate restructure are presented on the face of the Condensed Consolidated Statement of Comprehensive Income.



**8. Loss per share**

	<b>30 June 2009 £000 (unaudited)</b>	30 June 2008 £000 (unaudited)	31 December 2008 £000 (audited)
Loss for the period/year	<b>(1,808)</b>	(3,028)	(18,305)

  

	<b>Number</b>	Number	Number
Weighted average number of ordinary shares in issue	<b>63,416,450</b>	51,150,345	55,866,457
Basic and diluted loss per share	<b>(2.85)p</b>	(5.92)p	(32.80)p

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

There is no difference between basic and fully diluted loss per share due to a loss being made in the period.

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

Financial assets at fair value through profit or loss represents shares in a UK quoted company, designated at fair value through profit or loss on initial recognition. The investment is stated at market value with the difference between cost and market value included within the Condensed Consolidated Statement of Comprehensive Income.

**10. Available-for-sale financial assets**

Available-for-sale financial assets at 30 June 2009 comprise UK Government Treasury Bills which are stated at fair value and changes in fair value are reflected in equity.

**Manx Financial Group PLC**  
**Notes to the Consolidated Financial Statements**

16

**11. Loans and advances to customers**

	<b>30 June</b> <b>2009</b> <b>£000</b> <b>(unaudited)</b>	30 June 2008 £000 (unaudited)	31 December 2008 £000 (audited)
Hire purchase balances	<b>24,420</b>	32,460	29,413
Finance lease balances	<b>1,919</b>	2,476	2,189
Premium financing	<b>14,346</b>	15,017	17,589
Litigation funding	<b>1,266</b>	1,956	1,503
Unsecured personal loans	<b>5,776</b>	3,941	4,676
Vehicle stocking plans	<b>822</b>	483	546
	<b>48,549</b>	56,333	55,916

**12. Trade and other receivables**

		<b>30 June</b> <b>2009</b> <b>£000</b> <b>(unaudited)</b>	30 June 2008 £000 (unaudited)	31 December 2008 £000 (audited)
	Notes			
Trade debtors		<b>415</b>	326	511
Prepayments and other debtors		<b>191</b>	136	498
Depositors' Compensation Scheme recovery	4	<b>61</b>	—	—
Payments in advance for new banking system		<b>477</b>	—	342
VAT recoverable		<b>—</b>	214	32
		<b>1,144</b>	676	1,383

**13. Creditor and accrued charges**

		<b>30 June 2009 £000 (unaudited)</b>	30 June 2008 £000 (unaudited)	31 December 2008 £000 (audited)
	Notes			
Creditors and accruals		<b>1,423</b>	1,027	1,526
Redundancy costs		—	—	607
Closure of UK TransSend operation		—	—	447
Subordinated loan	16	<b>500</b>	—	500
Short-term employee benefits		<b>4</b>	48	14
Depositors' Compensation Scheme provision	4	<b>150</b>	—	—
		<b>2,077</b>	1,075	3,094

**14. Regulatory**

The Company's wholly owned subsidiary Conister Trust Limited is licensed to undertake banking activity by the Isle of Man Government Financial Supervision Commission. The Financial Supervision Commission reviews the appointment of all Directors of Conister Trust Limited.

**15. Contingent liabilities**

Conister Trust Limited is required to be a member of the Isle of Man Government Depositors' Compensation Scheme which was introduced by the Isle of Man Government under the Banking Business (Compensation of Depositors) Regulations 1991. The Scheme creates a liability on the Company to participate in the compensation of depositors should it be activated (note 4).

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# Manx Financial Group PLC

## Notes to the Consolidated Financial Statements

# 18

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### 16. Related party transactions

#### NewLaw

“Loans and advances to customers” include a loan due to Conister Trust Limited from NewLaw, a UK firm of solicitors. The loan carries interest at 7.3% per annum and is repayable over 36 months. As at 30 June 2009 the balance on the loan was £222,534 (30 June 2008: £389,435). NewLaw is a related party of Mr Arron Banks who is a Non-Executive Director and significant Shareholder. The loan is secured by a personal guarantee from Mr Banks.

#### Premium finance

Conister Trust Limited has an agreement with Group Direct Limited, a UK insurance broker, to provide premium financing of insurance policies brokered by Group Direct. The majority of these policies are issued by Southern Rock Insurance Company Limited. In the period the Group provided financing of £12.9 million (30 June 2008: £13.6 million), earning interest income of £665,000 (30 June 2008: £686,000). Group Direct Limited and Southern Rock Insurance Company Limited are related parties of Mr Banks.

#### Cash deposits

During the period Conister Trust Limited held cash on deposit on behalf of Mr Jim Mellon. Normal commercial interest rates are paid on these deposits.

#### Subordinated loan

On 22 December 2008 the Bank entered into a subordinated loan agreement for £500,000 with Mr Mellon. The loan is unsecured, bears interest on commercial terms and no repayment of the loan is necessary in the first five years. This loan represents a Related Party Transaction in accordance with AIM Rule 13. Accordingly, the Independent Directors, having consulted with the Group's Nominated Adviser, consider the terms of the transaction to be fair and reasonable in so far as the Shareholders of the Company are concerned.

#### Key management personnel (including Executive Directors') compensation

	30 June 2009 £000 (unaudited)	30 June 2008 £000 (unaudited)	31 December 2008 £000 (audited)
Short-term employee benefits	523	611	1,640
Share-based payments	5	244	211
Total	528	855	1,851

**17. Litigation**

Manx Financial Group PLC's wholly owned subsidiary, Conister Trust Limited, entered into litigation with a firm of solicitors involved in litigation finance, following their refusal to repay loans made to a number of their clients. Mediation occurred on 6 May 2009 and agreement was reached between the parties to settle this matter on 20 May 2009. As at 30 June 2009 the firm of solicitors had no outstanding loan balance (2008: £369,000).

The Bank is vigorously pursuing the repayment of litigation funding loans made to clients of other solicitor firms and further litigation may be required in this regard. Counter claims have been received and there is the possibility of litigation being necessary. There is a risk of an adverse outcome in all litigation and the costs and timescale to resolve these matters are uncertain.

**18. Approval of interim statements**

The interim statements were approved by the Board on 15 September 2009. The interim report will be available from that date at the Group's Registered Office: Conister House, Isle of Man Business Park, Cooil Road, Braddan, Isle of Man, IM2 2QZ.

The Group's nominated adviser is Beaumont Cornish Limited, 2nd Floor, Bowman House, 29 Wilson Street, London, EC2R 7DE. The Group's broker is Fairfax I.S. PLC, 46 Berkeley Square, London, W1J 5AT.

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







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