



MANX FINANCIAL  
GROUP PLC

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INTERIM REPORT 2010

# 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") was formed as part of a "Scheme of Arrangement" in January 2008 to establish a holding company for the banking, wealth management and card services operations. MFG is listed on the London Stock Exchange's Alternative Investment Market ("AIM"). The original Conister Trust Plc was one of the first companies to be admitted to the AIM in 1995.

In July 2010, MFG acquired the capital of Edgewater Associates Limited to administer the Conister Wealth division, to provide licensed independent financial advice on a range of life assurance, pension and investment products to both personal and business customers.



Conister Bank Limited ("the Bank") is the only independent bank based in the Isle of Man and a full member of the MasterCard™ network, regulated by the Financial Services Commission.

Since its inception in 1935, the Bank offers both Personal and Commercial Banking, providing a wide variety of financial products and services, including taking deposits and the provision of credit facilities and asset finance.



Conister Card Services is the Group's prepaid card division. Conister Card Services 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

### *For the Group:*

- ⊙ The consolidated results continued to improve to the best six month financial performance since restructuring by posting a much reduced loss of £0.3 million (June 2009: loss of £1.8 million).
- ⊙ Conister Bank Limited, the Group's earnings driver, returned to profit.
- ⊙ Conister Card Services continued profitable growth.
- ⊙ Successfully raised £3.6 million of regulatory capital and cancelled £0.5 million of expensive debt.
- ⊙ Improved the consolidated cost to income ratio by 26.7% compared to the first half of 2009.

### *For Conister Bank Limited:*

- ⊙ Financial performance enhanced as the Bank recorded a half year profit of £0.1 million (2009: a loss of £0.6 million).
- ⊙ With a Risk Asset Ratio of 20.9% (June 2009: 17.8%) and a Tier 1 capital ratio of 23.1% (June 2009: 18.2%) the Bank's capital position improved. These figures exclude the additional regulatory capital raised by the over-subscribed General Offer which would add another 2.7% to the reported Risk Asset Ratio.
- ⊙ Following a review of the Bank's historic underwriting and collection processes the level of specific provisions was decreased by £0.5 million.
- ⊙ Good growth in asset backed lending of £11.3 million (2009: £7.0 million), 61.3%, in the first half of the year.
- ⊙ Significant new lending contracts have been committed with a further pipeline in development.
- ⊙ The Bank continues to have no exposure to the sub-prime sector or to mortgages.

### *For Conister Card Services Limited:*

- ⊙ Financial performance improved by £0.7 million as the business generated a half year profit of £0.1 million (2009: a loss of £0.6 million).
- ⊙ Conister Cards' overheads were reduced by £0.3 million, 54.6%, to £0.2 million (2009: £0.5 million).
- ⊙ The number of active cards issued has more than doubled in the last 12 months, as at 30 June 2010 we had issued 101,399 (2009: 49,881).

### *Subsequent event:*

- ⊙ The Company acquired a large, profitable Isle of Man based IFA business on 30 July 2010 which will create a step change to the Group's wealth offering and its profitability.



**James Mellon**  
Chairman

### **Delivering controlled growth in uncertain times**

The UK economy appears to be entering the early stages of recovery with low UK GDP growth recorded so far this year. Concern still surrounds employment levels as recent gains made in the private sector may well be offset by the UK's coalition government's tightening of its fiscal policy. Further, employment fears may well be leading to customers repaying long-term debt early. The current market place has materially changed from that of the pre credit crisis. There is an emerging trend in personal savings, which have shown a steady increase and customers are continuing to repay debt at historically high levels.

Here, the Isle of Man's economy, while not immune to the fall-out of the worldwide downturn, has responded positively to changes in the international environment and expects to sustain a 2.5% growth throughout 2010. Thus it continues to avoid a recessionary state with the annual rate of inflation as measured by the Retail Prices Index decreasing to 4.7% in July from 5.3% in June. The annual rate of inflation excluding housing costs shown by the RPI also decreased from 6.0% in June to 5.3% in July. The annual rate of inflation shown by the Consumer Prices Index remains at 4.2%.

As UK banks maintain efforts to repair their balance sheets, significant challenges remain in raising capital and funding. Under these conditions credit will remain tight. In contrast, your Company has a strong balance sheet after successfully raising new capital this year. We have improved financial performance and actively seek new secure lending opportunities.

We continue to look to diversify our income streams and in July we successfully completed the acquisition of a large local IFA business, Edgewater Associates Limited, which will not only contribute positively to this year's income statement but will also provide a step change to our wealth management business.

### **Financial review**

I am pleased to report that we improved our financial performance for the first six months of the year by £1.5 million as the Group at a consolidated level generated a small loss of £0.3 million (2009: a loss of £1.8 million). Both of the Group's operating

subsidiaries — Conister Bank Limited and Conister Card Services Limited — posted improved results in comparison to the first half of last year and indeed both were profitable.

Despite the tough external environment that shapes the markets in which we operate, the Group managed to grow underlying revenues by 1.2% for the first time since this financial crisis took hold. Total revenue was lower as no new premium finance lending has been written in 2010. Thus although total revenue in the period of £2.8 million (2009: £3.4 million) was £0.6 million lower than the first half of 2009, this was entirely as a result of terminating military lending and from the temporary withdrawal from premium finance. Our cost base has further reduced by £2.0 million to £3.1 million (2009: £5.1 million) and all costs remain tightly controlled with a 26.7% improvement in our cost to income ratio.

Year to date we have raised additional regulatory capital of £3.1 million before expenses. Of this figure, £1.7 million was by a convertible bond and a further £1.9 million by way of a General Offer, and we repaid £0.5 million of more expensive debt. This incremental regulatory capital will allow the Bank to lend its surplus liquidity to the benefit of the Group as a whole.

### **Conister Bank Limited**

It is pleasing to report an improvement in the Bank's financial performance to a recorded profit of £0.1 million (2009: a loss of £0.6 million). It is also encouraging for the future to note that underlying lending has increased by £4.3 million to £11.3 million (2009: £7.0 million) without a corresponding increase in arrears. Our new distribution strategy has driven up new loan proposals by 20% and fee income by 65% compared to 2009. Our cost of funds has steadily fallen during the first half of 2010 and we have maintained our lending margin. I discussed the need for correction of the mismatch between loans and deposits in the 2009 Annual Report and this has had, and will continue to have, the positive impact on the income statement that your Board expected. This strategy reduced our interest expense by £1.0 million to £0.9 million (2009: £1.9 million) in the period under review.

As we strengthen our skills to match our business needs and during this growth phase we have increased our sales, underwriting and collection teams and have improved their procedures to ensure future opportunities are not restricted by our internal capabilities. We are consistently being presented with new business opportunities but we will not sacrifice the quality of our lending book for volume and we will maintain a circumspect but pragmatic approach to underwriting. Notwithstanding, we continue to look for all new opportunities to lend that meet our criteria.

A key component of the interim result followed a review of our specific provisioning policy against the backdrop of both historic experience and the strengthening of our underwriting and collections processes. This review allowed us to take a one-off credit of £0.5 million against our operating expenses. Your Board remains confident that the revised specific provisioning policy remains both prudent and conservative.

With the successful implementation of the new banking system now behind us attention has turned to replacing the asset finance system. The new system is necessary to allow the growth in lending we forecast to be achieved but it will also provide greater system resilience and efficiency. We anticipate that the new system will be operational by the end of Quarter 1, 2011.

### **Conister Card Services Limited**

The repositioned pre-paid cards business delivered its second consecutive profitable half year result with a profit of £0.1 million (2009: a loss of £0.6 million). Revenues continue to grow and costs are shrinking and indeed are expected to reduce further as we exit legacy contracts. The take up on pre-paid cards in the market in general has been slower than many commentators expected although we have experienced good expansion as we now have over 100,000 active cards (31 December 2009: 73,150) and a profitable business base from which to grow.

### **Our people**

We are committed to developing new profitable lending opportunities and fully recognise that to

ensure we have the capability to deliver excellent customer service to both our existing and new customers, our systems and people must be developed and strengthened. Additional personnel have been recruited from mainstream UK clearing banks and they bring with them a combined experience totalling over 176 years of asset finance and commercial lending. Our people have a very important role in this strategy and I would like to thank them for their commitment and help in achieving this goal.

### **Outlook**

The economic environment appears to be stabilising although unemployment and the pace consumers are repaying debt are of some concern. Whilst lending greatly improved in the first half of this year, we recognise that lending in the second half of the year will need to greatly exceed that level before we achieve our target of sustained profitability. We do, however, have an active and identified new business pipeline which we anticipate will allow us to enter into profitable lending opportunities. We anticipate that these opportunities will allow us to maximise the utilisation of our surplus deposits and cash, underpinning the Bank's, and hence the Group's, continued drive to profitability.

Conister Cards has some interesting leads and is expected to further reduce its overheads as the year progresses.

Our acquisition of Edgewater Associates is already showing benefits in Group contribution and its performance is in line with expectations.

We will evaluate further acquisitions against a tight set of criteria as it is clear the Group's development should not solely rely on organic growth.

I would like to take this opportunity to thank you for your continued support as we maintain the development of Manx Financial Group PLC to a profitable, fully diversified financial services group.

### **Jim Mellon**

Executive Chairman

14 September 2010

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

04

		<b>For the period ended 30 June 2010</b>	For the period ended 30 June 2009	For the year ended 31 Dec 2009
		£000	£000	£000
	Notes	<b>(unaudited)</b>	(unaudited)	(audited)
Interest income	2	<b>2,250</b>	2,931	5,341
Interest expense	3	<b>(858)</b>	(1,880)	(3,222)
<b>Net interest income</b>	3	<b>1,392</b>	1,051	2,119
Fee and commission income		<b>40</b>	—	9
Fee and commission expense		<b>(341)</b>	(226)	(459)
<b>Net fee and commission expense</b>		<b>(301)</b>	(226)	(450)
<b>Net trading income</b>		<b>1,091</b>	825	1,669
Other operating income		<b>569</b>	392	871
Programme costs		<b>(233)</b>	(338)	(591)
Foreign exchange gain/(loss)		<b>19</b>	—	(26)
<b>Operating income</b>	3	<b>1,446</b>	879	1,923
Personnel expenses		<b>(1,070)</b>	(1,226)	(2,425)
Depreciation		<b>(74)</b>	(26)	(102)
Other expenses		<b>(886)</b>	(879)	(1,395)
Provision for impairment on loan assets		<b>324</b>	(396)	(643)
Depositors Compensation Scheme	4	<b>2</b>	(89)	(89)
Realised gains on available-for-sale financial assets		<b>24</b>	—	30
Unrealised (loss)/gain on financial assets carried at fair value		<b>(55)</b>	94	238
<b>Loss before specific items</b>	3	<b>(289)</b>	(1,643)	(2,463)
Restructure costs	5	<b>—</b>	(165)	(158)
<b>Loss before income tax expenses</b>		<b>(289)</b>	(1,808)	(2,621)
Income tax expense		<b>—</b>	—	—
<b>Loss for the period/year</b>		<b>(289)</b>	(1,808)	(2,621)
<b>Other comprehensive income:</b>				
Available-for-sale gains taken to equity		<b>—</b>	7	6
Actuarial gain/(loss) on pension scheme		<b>—</b>	40	(111)
<b>Total comprehensive loss for the period/year attributable to owners</b>		<b>(289)</b>	(1,761)	(2,726)
<b>Basic and diluted loss per share (pence)</b>	6	<b>(0.40)</b>	(2.85)	(4.13)

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

05

		<b>30 June</b>	30 June	31 Dec
		<b>2010</b>	2009	2009
		<b>£000</b>	£000	£000
	Notes	<b>(unaudited)</b>	(unaudited)	(audited)
<b>Assets</b>				
Cash and cash equivalents		<b>20,521</b>	12,428	7,976
Financial assets at a fair value through profit or loss	7	<b>319</b>	230	374
Available-for-sale financial instruments	8	—	10,493	9,989
Loans and advances to customers	9	<b>32,968</b>	48,549	37,554
Property, plant and equipment		<b>569</b>	164	601
Trade and other receivables	10	<b>490</b>	1,144	450
<b>Total assets</b>		<b>54,867</b>	73,008	56,944
<b>Liabilities</b>				
Customer accounts		<b>44,942</b>	63,691	49,544
Creditors and accrued charges	11	<b>637</b>	2,077	1,282
Pension liability		<b>66</b>	221	66
Loan notes	12	<b>1,710</b>	—	—
<b>Total liabilities</b>		<b>47,355</b>	65,989	50,892
<b>Equity</b>				
Called up share capital	13	<b>17,783</b>	15,854	15,854
Share premium account	13	—	6,142	6,142
Profit and loss account		<b>(10,271)</b>	(14,977)	(15,944)
<b>Total equity</b>		<b>7,512</b>	7,019	6,052
<b>Total liabilities and equity</b>		<b>54,867</b>	73,008	56,944

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

06

	<b>For the period ended 30 June 2010 £000 (unaudited)</b>	For the period ended 30 June 2009 £000 (unaudited)	For the year ended 31 Dec 2009 £000 (audited)
<b>RECONCILIATION OF LOSS BEFORE TAXATION TO OPERATING CASH FLOWS</b>			
Loss before income tax expense	<b>(289)</b>	(1,808)	(2,621)
Movement in financial assets held at fair value through profit or (loss)	<b>55</b>	(94)	(238)
Available-for-sale gains taken to equity	<b>—</b>	—	6
Issue of shares in lieu of bonus	<b>26</b>	—	—
Loss on disposal of property, plant and equipment	<b>—</b>	2	2
Depreciation charge	<b>74</b>	26	102
Share-based payment (expense)/gain	<b>(180)</b>	24	22
Pension scheme	<b>—</b>	(53)	(359)
(Increase)/decrease in trade debtors	<b>(40)</b>	239	939
Decrease in trade creditors	<b>(145)</b>	(1,017)	(1,812)
<b>Net cash outflow from trading activities</b>	<b>(499)</b>	(2,681)	(3,959)
Decrease in loans and advances to customers	<b>4,586</b>	7,367	18,362
Decrease in deposit accounts	<b>(4,602)</b>	(2,367)	(16,514)
<b>Cash (outflow)/inflow from operating activities</b>	<b>(515)</b>	2,319	(2,111)



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

07

	For the period ended <b>30 June</b> <b>2010</b> <b>£000</b> <b>(unaudited)</b>	For the period ended 30 June 2009 £000 (unaudited)	For the year ended 31 Dec 2009 £000 (audited)
Notes			
<b>CASH FLOW STATEMENT</b>			
<b>Cash flows from operating activities</b>			
Cash (outflow)/inflow from operating activities	(515)	2,319	(2,111)
Taxation paid	—	—	—
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(515)</b>	<b>2,319</b>	<b>(2,111)</b>
<b>Cash flows from investing activities</b>			
Purchase of tangible fixed assets	(42)	—	(526)
Sale of tangible fixed assets	—	—	13
Sale/(purchase) of available-for-sale financial instruments	8 <b>9,989</b>	(10,486)	(9,989)
<b>Net cash inflow/(outflow) from investing activities</b>	<b>9,947</b>	<b>(10,486)</b>	<b>(10,502)</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary share capital	—	6	—
(Repayment)/issue of subordinated liabilities	(500)	—	—
Issue of convertible loan notes	1,710	—	—
Proceeds from issue of additional share capital by way of General Offer	1,903	—	—
<b>Net cash inflow from financing activities</b>	<b>3,113</b>	<b>6</b>	<b>—</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>12,545</b>	<b>(8,161)</b>	<b>(12,613)</b>

**Manx Financial Group PLC**  
**Condensed Consolidated Statement of Changes in Equity**

08

	Notes	Share capital £000	Share premium £000	Retained earnings £000	Total 30 June 2010 £000	Total 30 June 2009 £000	Total 31 Dec 2009 £000
<b>Balance brought forward</b>		15,854	6,142	(15,944)	<b>6,052</b>	8,750	8,756
Loss for the period/year		—	—	(289)	<b>(289)</b>	(1,808)	(2,621)
Other comprehensive income		—	—	—	—	47	(105)
<b>Transactions with owners:</b>							
Arising on shares issued in the period/year	13	1,929	—	—	<b>1,929</b>	6	—
Share-based payment expense		—	—	(180)	<b>(180)</b>	24	22
Transfer to retained reserves		—	(6,142)	6,142	—	—	—
<b>Balance carried forward</b>		17,783	—	(10,271)	<b>7,512</b>	7,019	6,052

**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 2009 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 2009 and comply with IFRSs and IFRIC interpretations applicable to companies reporting under IFRS.

**2. Interest income**

	<b>For the period ended 30 June 2010 £000 (unaudited)</b>	For the period ended 30 June 2009 £000 (unaudited)	For the year ended 31 Dec 2009 £000 (audited)
<b>Interest income comprises:</b>			
Interest income — asset financing	<b>2,222</b>	2,861	5,260
Interest income — deposits	<b>28</b>	70	81
<b>Total</b>	<b>2,250</b>	2,931	5,341

**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 Bank Identity Number (BIN) sponsorship division, Conister Card Services. 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 2010	Asset and Personal Finance £000	Litigation Finance £000	Conister Card Services £000	Investing Activities £000	Total 30 June 2010 £000
Interest income — asset financing	2,103	119	—	—	2,222
Interest income — deposits	28	—	—	—	28
Interest expense	(858)	—	—	—	(858)
Net interest income	1,273	119	—	—	1,392
Operating income	979	119	348	—	1,446
Provision for impairment	399	(75)	—	—	324
Profit/(loss) before unallocated items	29	23	119	(31)	140
Group central costs	—	—	—	—	(429)
<b>Loss before specific items</b>					<b>(289)</b>
Capital expenditure	42	—	—	—	42
<b>Total assets</b>	<b>54,080</b>	<b>187</b>	<b>281</b>	<b>319</b>	<b>54,867</b>

For the six months to 30 June 2009	Asset and Personal Finance £000	Litigation Finance £000	Conister Card Services £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)/profit 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>

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

11

**3. Segmental analysis continued**

For the twelve months to 31 December 2009	Asset and Personal Finance £000	Litigation Finance £000	Conister Card Services £000	Investing Activities £000	Total 31 Dec 2009 £000
Interest income	5,007	253	—	—	5,260
Deposit interest income	81	—	—	—	81
Interest expense	(3,222)	—	—	—	(3,222)
Net interest income	1,866	253	—	—	2,119
Operating income	1,447	253	223	—	1,923
Provision for impairment	28	(671)	—	—	(643)
Loss before unallocated items	(922)	(468)	(225)	268	(1,347)
Group central costs	—	—	—	—	(1,116)
<b>Loss before specific items</b>					(2,463)
Capital expenditure	526	—	—	—	526
<b>Total assets</b>	56,183	188	199	374	56,944

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

12

**4. Depositors' Compensation Scheme**

		<b>For the period ended 30 June 2010 £000 (unaudited)</b>	For the period ended 30 June 2009 £000 (unaudited)	For the year ended 31 Dec 2009 £000 (audited)
	Notes			
Provision in respect of Kaupthing Singer & Friedlander (Isle of Man) Limited	11	<b>(2)</b>	150	150
Recovery in respect of Bank of Credit & Commerce International SA	10	—	(61)	(61)
		<b>(2)</b>	89	89

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. An initial payment of £73,880 was made into the scheme in the prior year. In addition, a further provision of £76,120 was made resulting in a total charge in the prior year of £150,000. A further payment of £73,880 was made into the scheme in June 2010.

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 Conister Card Services 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</b>	30 June	31 Dec
	<b>2010</b>	2009	2009
	<b>£000</b>	£000	£000
	<b>(unaudited)</b>	(unaudited)	(audited)
<b>Closure of UK Conister Card Services operation</b>			
Redundancy costs	—	165	101
	—	165	101
<b>Reorganisation of the Isle of Man operational processes</b>			
Redundancy costs	—	—	57
	—	—	57
	—	165	158

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

14

**6. Loss per share**

	<b>For the period ended 30 June 2010 £000 (unaudited)</b>	For the period ended 30 June 2009 £000 (unaudited)	For the year ended 31 Dec 2009 £000 (audited)
Loss for the period/year	<b>(289)</b>	(1,808)	(2,621)

	<b>Number</b>	Number	Number
Weighted average number of ordinary shares in issue	<b>64,373,206</b>	63,416,450	63,416,450
Basic and diluted loss per share	<b>(0.40)p</b>	(2.85)p	(4.13)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.

**7. 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.

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

At 30 June 2010 all available-for-sale financial assets had been sold. At 31 December 2009 the balance comprised UK Government Treasury Bills.



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

15

**9. Loans and advances to customers**

	<b>30 June</b>	30 June	31 Dec
	<b>2010</b>	2009	2009
	<b>£000</b>	£000	£000
	<b>(unaudited)</b>	(unaudited)	(audited)
Hire purchase balances	<b>24,131</b>	24,420	22,995
Finance lease balances	<b>1,416</b>	1,919	1,122
Premium financing	<b>670</b>	14,346	7,198
Litigation funding	<b>187</b>	1,266	154
Unsecured personal loans	<b>5,369</b>	5,776	5,242
Vehicle stocking plans	<b>1,195</b>	822	843
	<b>32,968</b>	48,549	37,554

**10. Trade and other receivables**

		<b>30 June</b>	30 June	31 December
		<b>2010</b>	2009	2009
		<b>£000</b>	£000	£000
	Notes	<b>(unaudited)</b>	(unaudited)	(audited)
Trade debtors		—	415	34
Prepayments and other debtors		<b>410</b>	191	378
Depositors' Compensation Scheme recovery	4	—	61	—
Payments in advance for new banking system		—	477	—
VAT recoverable		<b>80</b>	—	38
		<b>490</b>	1,144	450

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

16

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**11. Creditors and accrued charges**

		<b>30 June</b>	30 June	31 Dec
		<b>2010</b>	2009	2009
		<b>£000</b>	£000	£000
	Notes	<b>(unaudited)</b>	(unaudited)	(audited)
Creditors and accruals		<b>582</b>	1,423	780
Subordinated loan	16	—	500	500
Short-term employee benefits		<b>55</b>	4	2
Depositors' Compensation Scheme provision	4	—	150	—
		<b>637</b>	2,077	1,282

**12. Loan notes**

On 3 March 2010 MFG entered into a convertible loan agreement with J Mellon for £1.25 million. The loan is convertible into shares from the first anniversary of the loan drawdown at £0.09 per share and bears interest until conversion at a rate of 9%. MFG also entered into an identical agreement with Rock Holdings Limited (a company linked to A Banks) for £0.46 million on 26 March 2010. These loans represent 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 insofar as the Shareholders of the Company are concerned.

**13. Called up share capital and share premium**

Following the approval by its Shareholders at the Company's Extraordinary General Meeting held on 14 January 2010, it has now re-registered as a company incorporated under the Isle of Man Companies Act 2006 (as amended).

As a result, the Company's authorised share capital consists of 150,000,000 ordinary shares of no par value and the share premium account was transferred to reserves.

During the period the Company extended an open general offer to all Shareholders on the basis of 1 New Ordinary Share for every 3 Existing Ordinary Shares held. Under the general offer the Company issued 21,138,277 new ordinary shares of no par value and raised £1.9 million of capital.

In addition to the general offer, the Company issued a total of 236,269 shares with a value of £26,200 to two Executive Directors in lieu of cash bonuses.

<b>Authorised: Ordinary shares of no par value</b>	<b>Number</b>
At 31 December 2009	150,000,000
<b>At 30 June 2010</b>	<b>150,000,000</b>

<b>Issued and fully paid: Ordinary shares of no par value</b>	<b>Number</b>	<b>£000</b>
At 31 December 2009	63,416,450	15,854
Issued as a result of open general offer to all Shareholders	21,138,277	1,903
Issued in lieu of bonus to Executive Directors	239,269	26
<b>At 30 June 2010</b>	<b>84,793,996</b>	<b>17,783</b>

**Share Options**

On 25 June 2010 the Company also granted share options over 1,410,447 ordinary shares of no par value, representing 1.66% of the new issued share capital of the Company. The exercise price of the options is 10.95p and they will vest if the mid market share price of £0.30 is achieved during the period of the grant. Options will expire after ten years. No shares resulting from the exercise of an option may be sold for at least three years after grant.

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# Manx Financial Group PLC

## Notes to the Consolidated Financial Statements

# 18

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### 14. Regulatory

The Company's wholly owned subsidiary Conister Bank 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 Bank Limited.

### 15. Contingent liabilities

Conister Bank 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).

### 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 2010 the balance on the loan was £55,634 (30 June 2009: £222,534). NewLaw is a related party of A Banks who is a Non-Executive Director and significant Shareholder. The loan is secured by a personal guarantee from A Banks.

#### Premium finance

Conister Bank 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. Lending under this agreement ceased on 6 January 2010; however, during the six day period to this date the Group provided financing of £16,446 (six month period to 30 June 2009: £12.9 million). Interest income of £91,140 was earned for the six month period to 30 June 2010 (30 June 2009: £665,000). Group Direct Limited and Southern Rock Insurance Company Limited are related parties of A Banks.

**16. Related party transactions continued**

**Cash deposits**

During the period Conister Bank held cash on deposit on behalf of J Mellon. Normal commercial interest rates are paid on these deposits.

**Subordinated loan and convertible loan notes**

On 22 December 2008 the Bank entered into a subordinated loan agreement for £500,000 with J Mellon. The loan was unsecured, carried interest on commercial terms and no repayment of the loan was necessary in the first five years. This loan was repaid on 3 March 2010. New loan notes were issued to two Directors on 3 March 2010, see note 12.

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

	<b>For the period ended 30 June 2010 £000 (unaudited)</b>	For the period ended 30 June 2009 £000 (unaudited)	For the year ended 31 Dec 2009 £000 (audited)
Short-term employee benefits	322	523	729
Share-based payments	26	5	9
Total	<b>348</b>	528	738

The share-based payments expense to June 2010 relates to the shares issued in lieu of cash bonuses to two of the Executive Directors (see note 13).

**17. Litigation**

Manx Financial Group PLC's wholly owned subsidiary, Conister Bank 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 2010 the firm of solicitors had no outstanding loan balance (2009: nil).

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.

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# Manx Financial Group PLC

## Notes to the Consolidated Financial Statements

# 20

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### 18. Subsequent events

On 30 July MFG acquired 100% of the share capital of Edgewater Associates Limited, a firm of independent financial advisors located in the Isle of Man.

Consideration for the acquisition was £2 million, payable as £1 million in cash and £1 million in new ordinary shares ("Consideration Shares") in the Group. The initial consideration payable on completion was £525,000 in cash and £475,000 in 3,392,857 initial Consideration Shares, issued at a price of 14p per share, with the deferred element becoming payable over the next three years on approval of the respective company accounts for each of the financial years ending 31 December 2010, 2011 and 2012. The deferred element, payable on the approval of the respective accounts, is:

- ⊙ 31 December 2010: £158,000 in cash and £175,000 payable in Consideration Shares,
- ⊙ 31 December 2011: £158,000 in cash and £175,000 payable in Consideration Shares,
- ⊙ 31 December 2012: £159,000 in cash and £175,000 payable in Consideration Shares.

The Consideration Shares shall be issued on the basis of the mean average offer price of the Group's ordinary shares for the five business days immediately preceding the date on which the obligation arises. The cash consideration will be financed from existing cash resources.

It has also been agreed that an incentive commission will be paid to Edgewater's principals, calculated as to 40% of the EBITDA in excess of £400,000, £450,000 and £500,000 thresholds in each of the financial years ending 31 December 2010, 2011 and 2012 on a cumulative basis so as to make good any prior year or years' shortfall before triggering any additional consideration. The incentive commission will be payable 50% in cash and 50% in the Group's shares. Such additional shares will be issued at the same price as the Consideration Shares for that year.

### 19. Approval of interim statements

The interim statements were approved by the Board on 14 September 2010. 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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