



MANX FINANCIAL
GROUP PLC

INTERIM REPORT 2015

Welcome to Manx Financial Group PLC

Integrity through independence and service

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



MANX FINANCIAL
GROUP PLC

Manx Financial Group PLC (MFG) is an AIM listed company which owns a suite of financial service companies based in the UK and the Isle of Man. These companies offer financial services to both retail and commercial customers. MFG's strategy is to grow organically and through strategic acquisition to further augment the range of services it offers.

Principal wholly owned subsidiaries:

- Conister Bank Limited
- Edgewater Associates Limited
- Conister Card Services Limited.



Conister Bank Limited (the Bank) is a licensed independent bank, regulated by the Financial Supervision Commission in the Isle of Man and a full member of the MasterCard® network and the Isle of Man's Association of Licensed Banks.

The Bank provides a variety of financial products and services, including saving accounts, fiduciary deposits, asset financing, personal loans, loans to small and medium sized entities (SMEs), block discounting and other specialist secured credit facilities to both the Isle of Man and the UK consumer and business sectors.



Edgewater Associates Limited (EWA) is one of the pre-eminent independent financial advisers in the Isle of Man.

It provides a bespoke and personal service to Isle of Man residents and to the Group's business and personal customers and manages assets in excess of £165 million.

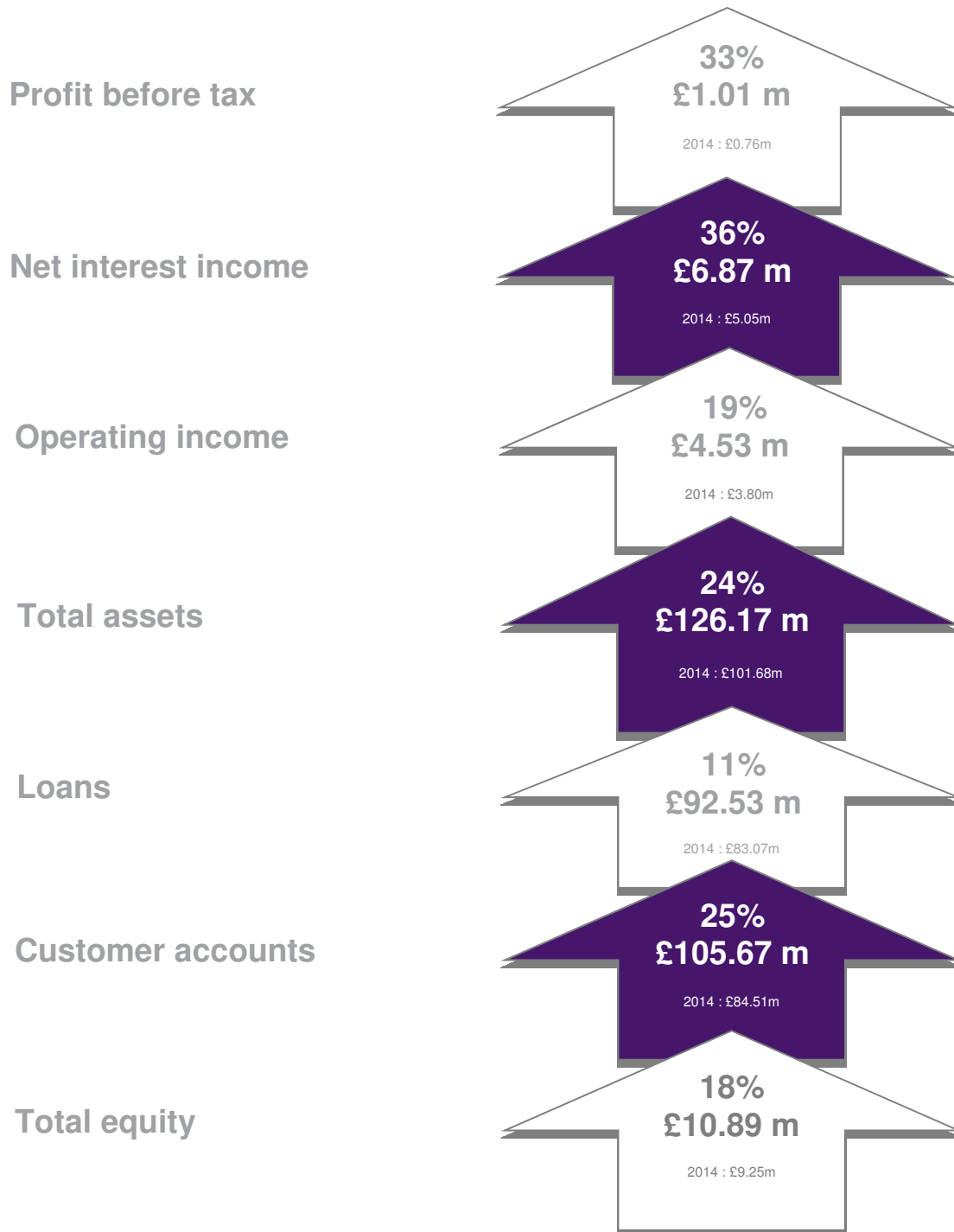
EWA specialises in the areas of wealth management, mortgage and general insurance, and retirement planning.

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CONISTER CARD SERVICES

Conister Card Services Limited is the Group's prepaid card division providing business clients with payment solutions that are cost effective and create new revenue opportunities.



Manx Financial Group PLC

Chairman's Statement

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Jim Mellon
Chairman

Dear Shareholders,

2015 Group Interim Results

I am pleased to announce that 2015 produced another record interim profit before income tax of £1.01 million (2014: £0.76 million), a growth of 33%. After taxation, the profit for the period was £0.89 million (2014: £0.72 million), a growth of 23%. As a result, our basic earnings per share were 0.87 pence (2014: 0.71 pence) and 0.54 pence on a fully diluted basis (2014: 0.47 pence). Our total assets stand at £126.17 million (2014: £101.68 million) and shareholder equity stands at £10.89 million (2014: £9.25 million), a growth of 24% and 18% respectively. On an annualised basis, our return on equity at 16.3% shows a continued improvement (2014 full year: 15.6%).

Manx Financial Group PLC

Our main operating subsidiaries, Conister Bank Limited and Edgewater Associates Limited, continue to show excellent growth. In the last twelve months the Group has also been incubating new business streams to extend and diversify our product range. In particular, we have formed Manx FX Limited to provide commercial foreign exchange broking solutions; Manx Financial Solutions PCC plc to provide retail and commercial loan broking services; Manx Incahoot Limited to provide alternative payment solutions for both the public and private sectors; and Manx Financial Limited, a partnership to provide asset finance backed by our own capital. All these initiatives are still in their infancy and we believe they will make a positive contribution to the Group's performance in the coming years. The set-up costs for each of these operations have already been expensed within the first half. Our strategy, however, is not only driven by a reliance on organic growth as we continue to look for suitable acquisitions and partnerships to provide an incremental business fit.

In the UK, consumer finance industry regulation changed from 1 April 2014 and the Financial Conduct Authority replaced the Office of Fair Trading as the new regulator of consumer credit related undertakings. The Group has Interim Permissions for all subsidiaries engaged in this activity. We submitted our initial application for Full Authorisation on behalf of Conister Bank in May 2015, which will be followed by applications for the remaining subsidiaries in the second half of 2015. All our applications will be dealt with under a six month authorisation process.

Providing the utmost quality of service and treating customers fairly has been the Group's continuing cornerstone since we started out in 1935. Over time, we have developed and implemented formal policies and procedures to ensure that the highest standards of regulatory compliance are maintained. To further strengthen our prudential governance and risk management, we have invested in additional headcount to train and monitor the performance of all staff in these essential areas. We are also in the process of reviewing our existing IT platforms throughout to keep abreast of the new functionality that is available to both enhance customer experience and provide back-office efficiencies. Further investment in this area will also allow us to differentiate our overall product range and promote scalability, thus helping minimise any pressure on our cost-base as we grow.

For a long time we have believed our VAT recovery rate at Conister Bank to be neither fair nor reasonable. As a result, we continue to carry a VAT debtor of £589,000 in relation to ongoing negotiations with the Isle of Man Customs & Excise Division ('C&E'). In parallel,

Volkswagen Financial Services Limited ('VWFS') have taken HM Revenue & Customs ('HMRC') to Court on a substantially similar matter and we have agreed with C&E that we will await the outcome of this case before proceeding with our own. On 31 July 2015, the Court of Appeal overturned the Upper Tribunal's decision and ruled in favour of VWFS. At this time it is uncertain if HMRC will apply for permission to appeal, and if so, whether their request will be granted. This recent judgement, however, can only be seen as a positive outcome for us.

Conister Bank Limited

Interest income for our banking subsidiary grew by 31% to £8.37 million (2014: £6.42 million) with operating income increasing by 17% to £4.03 million (2014: £3.45 million) on a loan book of £92.53 million (2014: £83.07 million). Overheads increased by £0.31 million reflecting the increase in headcount in our risk, compliance and internal audit teams' staffing to ensure our anticipated growth is suitably controlled and prudently managed. Our Integrated Wholesale Funding Arrangements continue to prove popular with the market and underpinned our loan book growth of 11% to £92.45 million (2014: £82.99 million). Whilst we increased provisions by £0.14 million, our total provisioning as a percentage of our loan book has decreased by 0.2% to 2.3% (2014: 2.5%). We match the maturity periods of our loan and deposit books to the greatest extent possible which will help provide insulation to the anticipated increase in interest rates expected in 2016. Our depositors remain granular and loyal and this aspect of our business will not restrict our growth ambitions. Our loan book is based on strong collateral without large single exposures. We continue to maintain our regulatory capital obligation in sufficient surplus to support our projected growth.

The conclusion of the first half also saw the retirement of Don McCrickard as Chairman of Conister Bank and independent non-executive director of the Group board, a position he has held since 2007. I would like to take this opportunity of thanking him for his unstinting support as we restored profitability, wish him well for the future and to also formally welcome Neil Duggan as the Bank's new Chairman, joining the Group board as independent non-executive director.

Edgewater Associates Limited

Our recent restructuring of Edgewater Associates continues to bear fruit with the company generating record profits during the period. Assets under management increased by 24% to £165.73 million (2014: £132.79 million). This formed the basis of a 23% increase in commission income to £0.69 million (2014: £0.57 million). We have reduced operational costs to £0.51 million (2014: £0.62 million), a decrease of 17%. As a result, profitability increased 621% to £0.20 million (2014: loss of £0.04 million). Edgewater Associates' balance sheet continues to strengthen with total equity increasing by 62% to £1.00 million (2014: £0.62 million), an increase in shareholder equity of 377% since we acquired this business in 2010.

Our strategy of focusing on renewable commission income to reduce earnings volatility and to drive growth has proved successful. Our new business pipeline remains strong and we are in the process of enhancing our IT platform to provide comprehensive and customised reporting to customers. We continue to recruit qualified and experienced Independent Financial Advisors ('IFA') to ensure that the very best advice is given, a common thread that links all of our operations. We intend to supplement this growth by our continuous review of other profitable IFA businesses on the Isle of Man as we wish to act as a consolidator in this market.

Edgewater Associates will move its offices to join the Group's headquarters in September 2015. Apart from a rental saving, having all our Isle of Man operations under one roof will ensure a conformity of standards and simplify administration, providing an enhanced customer experience.

Outlook

The Group has delivered excellent profitability for the first half of 2015 and I have every confidence that the full year will see this momentum maintained. Our new business opportunities remain strong and we will continue to manage our operational costs as prudently as possible.

We welcome the enhanced regulatory framework in which we operate, emphasising as it does the necessity to treat the customers fairly, already a fundamental tenet of our business. Thus we are well positioned to more than meet these regulatory requirements and they will not dampen our expectations for further sustainable growth.

Our clear vision for the Group's future combines organic growth with the development of complementary business lines. Notwithstanding, we are always on the lookout for meaningful and affordable acquisitions as we continue our diversification into an integrated banking and financial services group.

Jim Mellon
Executive Chairman
13 August 2015

Manx Financial Group PLC
Condensed Consolidated Income Statement

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| | Notes | For the 6 months ended 30 June 2015 £000 (unaudited) | For the 6 months ended 30 June 2014 £000 (unaudited) | For the year ended 31 Dec 2014 £000 (audited) |
|--|-------|--|--|---|
| Interest income | 2 | 8,374 | 6,416 | 13,634 |
| Interest expense | | (1,504) | (1,370) | (2,809) |
| Net interest income | | 6,870 | 5,046 | 10,825 |
| Fee and commission income | | 770 | 576 | 1,276 |
| Profit / (loss) on joint venture | | 5 | - | (2) |
| Fee and commission expense | | (550) | (491) | (1,102) |
| Commission share schemes | | (2,601) | (1,424) | (3,749) |
| Net trading income | | 4,494 | 3,707 | 7,248 |
| Other operating income | | 40 | 90 | 97 |
| Operating income | | 4,534 | 3,797 | 7,345 |
| Personnel expenses | | (1,751) | (1,427) | (2,931) |
| Other expenses | | (1,110) | (1,016) | (1,950) |
| Provision for impairment on loan assets | | (634) | (493) | (550) |
| Depositors' Compensation Scheme recovery | | - | - | 11 |
| Depreciation | | (89) | (130) | (228) |
| Amortisation | 11 | (17) | - | - |
| Realised gains on available-for-sale financial assets | | 40 | - | 32 |
| Unrealised gain / (loss) on financial assets carried at fair value | | 34 | 24 | (1) |
| Profit before income tax expense | | 1,007 | 755 | 1,728 |
| Income tax expense | | (118) | (35) | (139) |
| Profit for the period / year | | 889 | 720 | 1,589 |
| Basic earnings per share (pence) | 4 | 0.87 | 0.71 | 1.56 |
| Diluted earnings per share (pence) | 4 | 0.54 | 0.47 | 0.98 |

Manx Financial Group PLC

Condensed Consolidated Statement of Other Comprehensive Income

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| | Notes | For the 6 months ended 30 June 2015 £000 (unaudited) | For the 6 months ended 30 June 2014 £000 (unaudited) | For the year ended 31 Dec 2014 £000 (audited) |
|--|-------|--|--|---|
| Profit for the period / year | | 889 | 720 | 1,589 |
| Other comprehensive income: | | | | |
| Items that will be reclassified to profit or loss | | | | |
| Available for sale gains taken to equity | | - | - | 6 |
| Items that will never be reclassified to profit or loss | | | | |
| Actuarial losses on defined benefit pension scheme taken to equity | | - | - | (173) |
| Total comprehensive income for the period / year attributable to Shareholders | | <u>889</u> | <u>720</u> | <u>1,422</u> |
| Basic earnings per share (pence) | 4 | 0.87 | 0.71 | 1.39 |
| Diluted earnings per share (pence) | 4 | 0.54 | 0.47 | 0.89 |

Manx Financial Group PLC
Condensed Consolidated Statement of Financial Position

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| As at | Notes | 30 June 2015 £000 (unaudited) | 30 June 2014 £000 (unaudited) | 31 Dec 2014 £000 (audited) |
|---|-------|--|--|-------------------------------------|
| Assets | | | | |
| Cash and cash equivalents | | 5,603 | 2,982 | 6,123 |
| Financial assets at a fair value through profit or loss | 5 | 81 | 72 | 47 |
| Available for sale financial instruments | 6 | 22,771 | 10,974 | 18,775 |
| Loans and advances to customers | 7 | 92,532 | 83,071 | 89,338 |
| Commissions receivable | | 322 | 288 | 326 |
| Property, plant and equipment | | 654 | 644 | 605 |
| Intangible assets | 11 | 83 | - | - |
| Trade and other receivables | 8 | 1,005 | 944 | 1,166 |
| Investment in joint venture | | 505 | - | 499 |
| Deferred tax asset | | 167 | 359 | 284 |
| Goodwill | 11 | 2,444 | 2,344 | 2,344 |
| Total assets | | 126,167 | 101,678 | 119,507 |
| Liabilities | | | | |
| Customer accounts | | 105,671 | 84,509 | 100,259 |
| Creditors and accrued charges | 9 | 2,050 | 1,297 | 1,715 |
| Loan notes | 10 | 7,115 | 6,415 | 7,165 |
| Deferred consideration | 11 | 100 | - | - |
| Pension liability | | 339 | 203 | 388 |
| Total liabilities | | 115,275 | 92,424 | 109,527 |
| Equity | | | | |
| Called up share capital | 12 | 18,933 | 18,933 | 18,933 |
| Profit and loss account | | (8,041) | (9,679) | (8,953) |
| Total equity | | 10,892 | 9,254 | 9,980 |
| Total liabilities and equity | | 126,167 | 101,678 | 119,507 |

Manx Financial Group PLC
Condensed Consolidated Statement of Cash Flows

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| | For the 6 months ended 30 June 2015 £000 (unaudited) | For the 6 months ended 30 June 2014 £000 (unaudited) | For the year ended 31 Dec 2014 £000 (audited) |
|---|--|--|---|
| RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS | | | |
| Profit before tax on continuing activities | 1,007 | 755 | 1,728 |
| Unrealised (gain) / loss on financial assets carried at fair value | (34) | (24) | 1 |
| Gain on disposal of property, plant and equipment | - | (6) | (5) |
| (Profit) / loss on joint venture | (5) | - | 2 |
| Depreciation charge | 89 | 130 | 228 |
| Amortisation charge | 17 | - | - |
| Realised gains on available for sale investments | (40) | - | (32) |
| Actuarial loss on defined benefit pension scheme taken to equity | - | - | (173) |
| (Reduction) / increase in pension liability | (49) | (49) | 136 |
| Share-based payment expense | 23 | - | 24 |
| Decrease / (increase) in trade and other receivables | 161 | 70 | (152) |
| Increase in creditor and accrued charges | 335 | 543 | 934 |
| Decrease / (increase) in commission debtors | 4 | 1 | (37) |
| | <hr/> | <hr/> | <hr/> |
| Net cash inflow from trading activities | 1,508 | 1,420 | 2,654 |
| Increase in loans and advances to customers | (3,194) | (7,252) | (13,519) |
| Increase in deposit accounts | 5,412 | 6,394 | 22,144 |
| | <hr/> | <hr/> | <hr/> |
| Cash inflow from operating activities | 3,726 | 562 | 11,279 |

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

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| | For the 6 months ended 30 June 2015 £000 (unaudited) | For the 6 months ended 30 June 2014 £000 (unaudited) | For the year ended 31 Dec 2014 £000 (audited) |
|--|--|--|---|
| CASH FLOW STATEMENT | | | |
| Cash flows from operating activities | | | |
| Cash inflow from operating activities | 3,726 | 562 | 11,279 |
| Taxation paid | - | - | - |
| Net cash inflow from operating activities | 3,726 | 562 | 11,279 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | (138) | (147) | (208) |
| Purchase of available for sale financial instruments | (3,957) | (1,974) | (9,737) |
| Acquisition of Manx Incahoot business | (101) | - | - |
| Sale of property, plant and equipment | - | 8 | 7 |
| Investment in joint venture | - | - | (501) |
| Net cash outflow from investing activities | (4,196) | (2,113) | (10,439) |
| Cash flows from financing activities | | | |
| Issue of loan notes | 150 | 350 | 1,100 |
| Repayment of loan notes | (200) | - | - |
| Net cash (outflow) / inflow from financing activities | (50) | 350 | 1,100 |
| (Decrease) / increase in cash and cash equivalents | (520) | (1,201) | 1,940 |
| Included in cash flows are: | | | |
| Interest received – cash amounts | 8,267 | 6,251 | 13,360 |
| Interest paid – cash amounts | (1,499) | (1,369) | (2,802) |

Manx Financial Group PLC
Condensed Consolidated Statement of Changes in Equity

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| | Share capital £000 | Retained earnings and other reserves £000 | Total 30 June 2015 £000 (unaudited) | Total 30 June 2014 £000 (unaudited) | Total 31 Dec 2014 £000 (audited) |
|--|--------------------------|---|---|---|--|
| Balance brought forward | 18,933 | (8,953) | 9,980 | 8,534 | 8,534 |
| Profit for the period / year | - | 889 | 889 | 720 | 1,589 |
| Other comprehensive income | - | - | - | - | (167) |
| Transactions with Shareholders: | | | | | |
| Share-based payment expense | - | 23 | 23 | - | 24 |
| Balance carried forward | 18,933 | (8,041) | 10,892 | 9,254 | 9,980 |

Manx Financial Group PLC

Notes to the Consolidated Financial Statements

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1. Preparation of the interim statements

The financial information included in this interim financial report for the six months ended 30 June 2015 is unaudited.

The interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". The accounting policies have been applied consistently with those presented in the Annual Report for the year ended 31 December 2014 and comply with IFRSs and IFRIC interpretations applicable to companies reporting under IFRS.

2. Interest income

Interest income represents charges and interest on finance and leasing agreements attributable to the period or year after adjusting for early settlements and interest on bank balances.

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 British Isles (United Kingdom and Isle of Man). The primary business segments are 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, block discounting and other specialised secured credit facilities); a Prepaid Card division, Conister Card Services Limited and Incahoot Limited; a Wealth Management division, Edgewater Associates Limited; and Foreign Exchange, Manx FX Limited.

| For the 6 months ended 30 June 2015 | Asset and Personal Finance £000 | Prepaid Card Division £000 | Wealth Management Division £000 | Foreign Exchange £000 | Investing Activities £000 | Total 30 June 2015 £000 (unaudited) |
|---|------------------------------------|-------------------------------|------------------------------------|--------------------------|------------------------------|---|
| Net interest income / (expense) | 7,085 | - | - | - | (215) | 6,870 |
| Operating income / (loss) | 4,034 | (10) | 699 | 26 | (215) | 4,534 |
| Profit / (loss) before income tax expense | 1,166 | (82) | 198 | (94) | (181) | 1,007 |
| Capital expenditure | 124 | 102 | - | - | 13 | 239 |
| Total assets | 125,001 | 312 | 758 | 27 | 69 | 126,167 |

| For the 6 months ended 30 June 2014 | Asset and Personal Finance £000 | Prepaid Card Division £000 | Wealth Management Division £000 | Foreign Exchange £000 | Investing Activities £000 | Total 30 June 2014 £000 (unaudited) |
|--|------------------------------------|-------------------------------|------------------------------------|--------------------------|------------------------------|---|
| Net interest income / (expense) | 5,258 | - | - | - | (215) | 5,046 |
| Operating income / (loss) | 3,482 | (53) | 576 | - | (208) | 3,797 |
| Profit / (loss) before income tax recovery / (expense) | 1,562 | (76) | (38) | - | (693) | 755 |
| Capital expenditure | 132 | - | 15 | - | - | 147 |
| Total assets | 100,596 | 106 | 902 | - | 12 | 101,616 |

3. Segmental analysis (continued)

| For the year ended 31 December 2014 | Asset and Personal Finance £000 | Prepaid Card Division £000 | Wealth Management Division £000 | Litigation Finance £000 | Investing Activities £000 | Total 31 Dec 2014 £000 (audited) |
|--|------------------------------------|-------------------------------|------------------------------------|----------------------------|------------------------------|---|
| Net interest income | 10,825 | - | - | - | - | 10,825 |
| Operating income | 6,198 | (108) | 1,255 | - | - | 7,345 |
| Profit / (loss) before income tax (expense) / recovery | 1,733 | (150) | 146 | 45 | (46) | 1,728 |
| Capital expenditure | 183 | - | 25 | - | - | 208 |
| Total assets | 118,515 | 106 | 824 | - | 62 | 119,507 |

4. Earnings per share

| | For the 6 months ended 30 June 2015 £000 (unaudited) | For the 6 months ended 30 June 2014 £000 (unaudited) | For the year ended 31 Dec 2014 £000 (audited) |
|---|---|---|--|
| Profit for the period / year | 889 | 720 | 1,589 |
| Weighted average number of ordinary shares in issue | 102,070,252 | 102,070,252 | 102,070,252 |
| Basic earnings per share | 0.87p | 0.71p | 1.56p |
| Diluted earnings per share | 0.54p | 0.47p | 0.98p |
| Total comprehensive income for the period / year | 889 | 720 | 1,422 |
| Weighted average number of ordinary shares in issue | 102,070,252 | 102,070,252 | 102,070,252 |
| Basic earnings per share | 0.87p | 0.71p | 1.39p |
| Diluted earnings per share | 0.54p | 0.47p | 0.89p |

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

The diluted earnings per share calculation assumes that all convertible loan notes, warrants and share options have been converted / exercised at the beginning of the period where they are dilutive.

5. Financial assets at fair value through profit or loss

The investment represents shares in a UK quoted company which was elected to be classified as a financial asset at fair value through profit or loss. The investment is stated at market value and is classified as a level 1 investment in the 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.

6. Available for sale financial instruments

Available for sale financial instruments comprise UK Government Treasury Bills which are stated at fair value and unrealised changes in the fair value are reflected in equity.

Manx Financial Group PLC
Notes to the Consolidated Financial Statements

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7. Loans and advances to customers

| As at | 30 June 2015 £000 (unaudited) | 30 June 2014 £000 (unaudited) | 31 Dec 2014 £000 (audited) |
|--------------------------|--|--|-------------------------------------|
| Hire purchase balances | 54,932 | 48,306 | 51,178 |
| Finance leases balances | 11,615 | 8,825 | 10,708 |
| Unsecured personal loans | 3,966 | 2,557 | 3,366 |
| Vehicle stocking plans | 1,057 | 1,465 | 1,284 |
| Block discounting | 6,828 | 6,604 | 6,766 |
| Secured commercial loans | 6,497 | 8,922 | 7,285 |
| Secured personal loans | 7,637 | 6,392 | 8,751 |
| | 92,532 | 83,071 | 89,338 |

8. Trade and other receivables

| As at | 30 June 2015 £000 (unaudited) | 30 June 2014 £000 (unaudited) | 31 Dec 2014 £000 (audited) |
|-------------------------------|--|--|-------------------------------------|
| Trade debtors | 228 | 232 | 428 |
| Prepayments and other debtors | 311 | 246 | 272 |
| VAT claim | 466 | 466 | 466 |
| | 1,005 | 944 | 1,166 |

Included in trade and other receivables is an amount of £466,000 (30 June & 31 December 2014: £466,000) relating to a reclaim of value added tax (VAT).

Conister Bank Limited (the Bank), as the Group VAT registered entity, has for some time considered the VAT recovery rate being obtained by the business as 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 v HM Revenue & Customs (TC01401) ("VWFS Decision") added significant weight to the case put by the Bank and a request for a revised Partial Exemption Special Method was submitted in December 2011. The proposal put forward by the Bank was that the revised method would allocate 50% of costs in respect of HP transactions to a taxable supply and 50% to an exempt supply. In addition at this time a Voluntary Disclosure was made as a retrospective claim for input VAT under-claimed in the last 4 years.

In November 2012, it was announced that the HMRC Upper Tribunal had overturned the First-Tier Tribunal in relation to the VWFS Decision. VWFS has subsequently been given leave to appeal and this was scheduled to be heard in October 2013. However, this was delayed by HMRC pending reference to a relevant European Court of judgement in the case of Banco Mais (C183/13). The judgement in this case was released on 10 July 2014 and ruled against the taxpayer; however the impact of the judgement on the VWFS case was unclear and VWFS continued to appeal to the Court of Appeal. 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. The Bank now awaits to see whether HMRC will appeal this decision.

The Bank's total exposure in relation to this matter is £589,000, comprising the debtor balance referred to above plus an additional £123,000 VAT reclaimed under the partial Exemption Special Method, in the period from Q4 2011 to Q3 2012 (from Q4 2012 the Bank reverted back to the previous method). On the basis of the discussions and correspondence which have taken place between the Bank and C&E, in addition to the VWFS appeal, the Directors are confident that the VAT claimed referred to above will be secured.

9. Creditors and accrued charges

| As at | 30 June 2015 £000 (unaudited) | 30 June 2014 £000 (unaudited) | 31 Dec 2014 £000 (audited) |
|------------------------------|--|--|-------------------------------------|
| Commission creditors | 1,610 | 996 | 1,389 |
| Other creditors and accruals | 440 | 301 | 326 |
| | 2,050 | 1,297 | 1,715 |

10. Loan notes

| As at | Notes | 30 June 2015 £000 (unaudited) | 30 June 2014 £000 (unaudited) | 31 Dec 2014 £000 (audited) |
|---|------------|--|--|-------------------------------------|
| Related parties | | | | |
| J Mellon | JM | 1,750 | 1,750 | 1,750 |
| Burnbrae Limited | BL | 1,200 | 1,200 | 1,200 |
| Southern Rock Insurance Company Limited | SR | 460 | 460 | 460 |
| Copper Development Corporation | CDC | 500 | 500 | 500 |
| | | 3,910 | 3,910 | 3,910 |
| Unrelated parties | | | | |
| | UP | 3,205 | 2,505 | 3,255 |
| | | 7,115 | 6,415 | 7,165 |

JM – Two loans, one of £500,000 maturing on 31 July 2017 with interest payable of 7% per annum, and one of £1,250,000 maturing on 26 February 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% 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, a significant Shareholder, holds a major stake in SR. John Banks, a non-executive Director is also a director of SR.

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

UP – Fourteen loans consisting of an average £228,929, with an average interest payable of 5.54% per annum. The earliest maturity date is 1 October 2015 and the latest maturity is 30 April 2020.

With respect to the convertible loans, the interest rate applied was deemed by the Directors to be equivalent to the market rate at that time with no conversion option hence no equity component has been recognised with respect to any of these loans.

Manx Financial Group PLC
Notes to the Consolidated Financial Statements

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11. Goodwill and intangible assets

| Goodwill As at | 30 June 2015 £000 (unaudited) | 30 June 2014 £000 (unaudited) | 31 Dec 2014 £000 (audited) |
|---|--|--|-------------------------------------|
| Edgewater Associates Limited | 1,849 | 1,849 | 1,849 |
| ECF Asset finance PLC | 454 | 454 | 454 |
| Manx Incahoot Limited | 100 | - | - |
| Three Spires Insurance Services Limited | 41 | 41 | 41 |
| | <u>2,444</u> | <u>2,344</u> | <u>2,344</u> |

| Intangible assets As at | 30 June 2015 £000 (unaudited) | 30 June 2014 £000 (unaudited) | 31 Dec 2014 £000 (audited) |
|------------------------------------|--|--|-------------------------------------|
| Balance brought forward | - | - | - |
| Acquired in period | 100 | - | - |
| Amortisation in period / year | (17) | - | - |
| | <u>83</u> | <u>-</u> | <u>-</u> |

On 13 March 2015, a newly incorporated subsidiary of the Group acquired the business of Incahoot Limited, which is a company invested in prepaid debit cards, comparison and discount sites in England and Wales. These assets included intangibles of business intellectual property rights, valued at £24,000, and a customer contract assigned, valued at £76,000. The customer contract is amortised over the term of the agreement. Up to 30 June 2015, £17,000 has been amortised. Therefore the net book value of intangibles is £83,000.

In addition to the aforesaid purchases, further deferred contingent consideration, subject to a maximum of £100,000, is due to the vendor on any pipeline business being realised post acquisition within 2 years of the acquisition date. As at 30 June 2015, no pipeline business had been realised but the full deferred consideration is still estimated to be paid.

| Acquisition of Manx Incahoot business As at | 30 June 2015 £000 (unaudited) |
|--|--|
| Fair value of consideration: | |
| - Cash | 101 |
| - Deferred consideration | <u>100</u> |
| | 201 |
| Fair value of separable assets and liabilities acquired: | |
| - Customer contract | 76 |
| - Intellectual property | 24 |
| - Property, plant and equipment | <u>1</u> |
| | (101) |
| Goodwill on acquisition | <u>100</u> |

12. Called up share capital

| Authorised: ordinary shares of no par value | Number | |
|---|--------------------|--|
| At 30 June 2014 | 150,000,000 | |
| At 31 December 2014 | 150,000,000 | |
| At 30 June 2015 | 150,000,000 | |

| Issued and fully paid: ordinary shares of no par value | Number | £000 |
|--|--------------------|---------------|
| At 30 June 2014 | 102,070,252 | 18,933 |
| At 31 December 2014 | 102,070,252 | 18,933 |
| At 30 June 2015 | 102,070,252 | 18,933 |

There are a number of convertible loans at 30 June 2015 of £3.41 million (30 June and 31 December 2014: £3.41 million) including warrants of 28.3 million (30 June and 31 December 2014: 28.3 million) (see note 10 for further details). The total number of warrants in issue at 30 June 2015 is 36.6 million (30 June and 31 December 2014: 36.6 million) (see note 10 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.

13. Regulator

Conister Bank Limited is licensed to undertake banking activities and Edgewater Associates Limited is licensed to conduct investment business by the Isle of Man Financial Supervision Commission.

14. Contingent Liabilities

Conister Bank Limited is required to be a member of the Isle of Man Government Depositors' Compensation Scheme (the 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.

15. Approval of Interim Statements

The Interim Statements were approved by the Board on 13 August 2015. The interim report will be available from that date at the Group's website – www.mfg.im and at the Registered Office: Clarendon House, Victoria Street, Douglas, Isle of Man, IM1 2LN. The Group's nominated adviser and broker is Beaumont Cornish Limited, 2nd Floor, Bowman House, 29 Wilson Street, London, EC2M 2SJ. The Interim and Annual reports along with other supplementary information of interest to Shareholders, are included on the Group's website. The website includes investor relations information and contact details.



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