



MANX FINANCIAL  
GROUP PLC

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INTERIM REPORT 2016

# 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 (LSE: MFX.L) which owns a suite of financial service companies based in the Isle of Man and the UK. These companies offer financial services to both retail and commercial customers. MFG's strategy is to grow organically and through strategic acquisition to further augment the range of services it offers.

Principal wholly owned subsidiaries:

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

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Conister Bank Limited (the Bank) is a licensed independent bank, regulated by the Financial Services Authority in the Isle of Man, the Financial Conduct Authority in the UK and is 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 savings accounts, fiduciary deposits, asset financing, personal loans, loans to small and medium sized entities, block discounting and other specialist secured credit facilities to both the Isle of Man and the UK consumer and business sectors.



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



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

It provides a bespoke and personal service to Isle of Man residents and to the Group's business and personal customers and manages assets in excess of £150 million.

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



Manx Incahoot operates principally as a UK based employee benefits and reward provider. It also partners with brands seeking to increase customer retention by offering their consumers or members a range of money saving solutions.



**Jim Mellon**  
Chairman

Dear Shareholders,

### 2016 Group Interim Results

I am pleased to announce significant improvements in the performance and results throughout the Group, but with the exception of one notable item which resulted in our interim profit before income tax declining to £0.712 million (2015: £1.007 million). Whilst this result is acceptable, it does represent a drop of nearly 30% over the same period of the previous year. It is worth examining the underlying figures which make up this total and why this decrease has occurred.

We have made a number of substantial gains in the first six months of this year. We have grown our loan book by 21% to £111.7 million (2015: £92.5 million) and our customer deposit accounts by 16% to £122.2 million (2015: £105.7 million) – thus increasing the Group's total assets by 18% to £149.1 million (2015: £126.2 million), with a corresponding growth in shareholder equity to £12.8 million (2015: £10.9 million). Our net interest income has shown a similar increase to £7.4 million (2015: £6.3 million) and our operating expenses at £3.2 million (2015: £3.2 million) continue to be well managed and in line with our budget.

Further positive advances have been made with Conister Bank Limited and its associates: Manx Financial Limited; Conister Finance & Leasing Ltd; and ECF Asset Finance plc; where all have now been granted full authorisation for UK FCA-regulated Consumer Credit activities allowing us to continue with the development of regulated consumer loans within the UK.

Despite this encouraging progress, the principal area of business in which we have suffered, however, is the increased levels of commission paid to our UK intermediaries, including hire purchase early settlements - a rise of 48% to £3.9 million (2015: £2.6 million). This expense reflects our changing business mix as the UK becomes an ever more significant market, now totalling over three quarters of our total loan book. The hire purchase early settlements contained within this commission expense are as a result of largely unanticipated market-driven decreases in realised asset values during the first half of the year. Under the UK Consumer Credit Act, the difference between the realised value of an asset and the actuarial value is charged to the Income Statement should the loan not go to full term.

As background and up to this point, we have utilised our UK intermediaries' network as a convenient method of accessing lending opportunities without us having to take on the burden of UK establishment, operating and tax charges. Your board is considering whether this strategy of reliance on UK intermediaries should now be augmented with our own direct UK business development initiatives, not as competition to our intermediaries, but to allow us to pursue complementary or differentiated lending streams under our own control. To this end, we have already started direct lending into the UK since July 2016 and the initial signs are very promising. We will continue to monitor this development and, if appropriate, consider building a UK branch structure as the direct business expands. We have also strengthened our Isle of Man operations with significant progress being continued since the half year.

### Conister Bank Limited

With advances increasing by 36% to £36.2 million (2015: £26.6 million), there remains a strong demand for our product range. We continue to develop new products for both existing customers and new relationships. As mentioned above, we will concentrate diversifying our UK loan book during the second half of the year - an initiative which is already showing significant growth. The increase in advances led to an uplift in the interest income for our banking subsidiary of 15% to £8.9 million (2015: £7.8 million). Operating income, however, remains unchanged at £3.5 million (2015: £3.5 million) as the commission payments to our UK intermediaries, including early settlements, increased by £1.2 million to £3.8 million (2015: £2.6 million). This decline in the operating income margin masks both the improvement in our cost of funds – a decrease of 7.7% to 2.4% per annum (2015: 2.6% per annum) and our improved use of deposits demonstrated by the 'Loan to Deposit Ratio' (a key ratio for tracking banking efficiency) improving by 2.5% to 89.7% (2015: 87.5%). Our goal is to move this ratio to over 93.0% by the year end.

New lending increased our gross loan book by 18% to £142.5 million (2015: £121.1 million), which includes the embedded deferred income growing by 16% to £30.8 million (2015: £26.5 million). Most notably, Isle of Man direct lending has beaten our expectations with a consistent monthly new business figure in excess of £1 million, which has continued throughout the first half to date. Despite this large increase in advances, our provision requirement has decreased by 5% to £2.1 million (2015: £2.2 million) due to our integrated wholesale funding arrangements being partially protected through their legal structure. As such, our provisions are now 1.5% (2015: 1.8%) of our gross loan book. The effect of this has allowed our net loan book to increase by 19.0% to £109.7 million (2015: £92.5 million). Our financing of the UK hand held debit/credit card payment terminals ceased in 2014 and we continue to collect out on this loan book and legal action has commenced to ensure that we will obtain the maximum recovery possible, with the anticipation that the majority of this discontinued lending stream will have run-off by the end of 2017.

Under the HMRC's Partial Exemption Special Method, we have increased our VAT debtor by a further £224,000, to a total of £690,000. Following further discussions and correspondence with the IoM C&E, the Directors remain confident that the VAT claimed will be secured.

As a consequence, Conister Bank Limited's total assets grew by 17% to £144.3 million (2015: £123.7 million) and the total equity increased by 15% to £13.3 million (2015: £11.6 million). Thus we continue to remain highly liquid and well capitalised to sustain our planned growth.

I would also like to take this opportunity to welcome Ian Morley as an independent non-executive Director to the Conister Bank Limited board. Ian brings a wealth of financial services experience, having been involved in regulated entities in many jurisdictions. His experience and contacts in the City of London and elsewhere have already contributed positively to our development.

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# Manx Financial Group PLC

## Chairman's Statement

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### **Edgewater Associates Limited**

The strategy for our Isle of Man based Independent Financial Advisor business continues to be that of targeted organic growth and also by seeking suitable acquisitions to augment our existing portfolio of clients. We continue to deliver improved advice and service to our existing customer base by employing experienced advisors supported by enhanced IT. This philosophy has borne fruit in the increase of our market share from referrals and selected business development.

Our acquisition strategy is progressing and I hope to be able to announce further developments on this topic in due course. Our significant investment in technology will allow us to deliver operational efficiencies in the event of any acquisition and will also allow the consequent integration to occur more smoothly.

### **Other operating subsidiaries**

We continue to incubate new business lines with the most promising being Manx FX Limited, our foreign exchange advisory subsidiary, which I am pleased to report has now started to trade profitably.

Our internet-based discounted shopping and financial services comparison subsidiary, Manx Incahoot Limited ("MIL"), has been re-positioned to enter the UK employee benefit market, a sector worth in excess of £750 billion a year. MIL has a market leading technology platform which includes an excellent rewards and recognition module. The product will be launched in October this year and will also be made available to all of the Group's customer base.

We have retained our MasterCard® prepaid/credit card license for the Isle of Man and UK and continue to explore ways to profitably leverage this asset.

### **Outlook**

The Group has delivered a meaningful profit for the first half of 2016 and I have every confidence that the measures that we are undertaking will maintain our current bottom line to the year end and beyond. New business opportunities remain strong but we must continue our hard work to maximize these. The acquisition of full authorisation for UK Consumer Credit activities will allow us increased direct access to this important market. We continue to manage our operational costs in a careful manner. Thus our clear vision for the Group's future remains the combination of organic growth with the development of complementary business lines. Notwithstanding, and as always, we are 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  
29 September 2016

# Manx Financial Group PLC

## Condensed Consolidated Income Statement

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	Notes	For the 6 months ended 30 June 2016 £000 (unaudited)	For the 6 months ended 30 June 2015 £000 (unaudited)	For the year ended 31 Dec 2015 £000 (audited)
<b>Continuing operations</b>				
Interest income	2	9,030	7,762	16,545
Interest expense		(1,675)	(1,504)	(3,002)
<b>Net interest income</b>		<b>7,355</b>	6,258	13,543
Fee and commission income		755	770	1,527
Profit on joint venture		-	5	28
Fee and commission expense		(363)	(452)	(792)
Commission share schemes		(3,852)	(2,601)	(6,196)
<b>Net trading income</b>		<b>3,895</b>	3,980	8,110
Other operating income		100	40	166
Terminal Funding	4	(96)	217	157
<b>Operating income</b>		<b>3,899</b>	4,237	8,433
Personnel expenses		(1,962)	(1,751)	(3,515)
Other expenses		(1,161)	(1,110)	(2,385)
Provision for impairment on loan assets		(183)	(337)	(397)
Depositors' Compensation Scheme recovery		-	-	10
Depreciation		(123)	(89)	(226)
Amortisation		(27)	(17)	(44)
VAT recovery	9	224	-	-
Realised gains on available-for-sale financial assets		37	40	80
Unrealised gain on financial assets carried at fair value		8	34	30
Gain on acquisition of subsidiary		-	-	28
Bargain purchase		-	-	295
<b>Profit before income tax</b>		<b>712</b>	1,007	2,309
Income tax expense		(82)	(118)	(207)
<b>Profit for the period / year</b>		<b>630</b>	889	2,102
Basic earnings per share (pence)	5	0.62	0.87	2.06
Diluted earnings per share (pence)	5	0.42	0.54	1.29

Manx Financial Group PLC  
Condensed Consolidated Statement of Other Comprehensive Income

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	Notes	For the 6 months ended 30 June 2016 £000 (unaudited)	For the 6 months ended 30 June 2015 £000 (unaudited)	For the year ended 31 Dec 2015 £000 (audited)
<b>Profit for the period / year</b>		<b>630</b>	889	2,102
<b>Other comprehensive income:</b>				
<b>Items that will be reclassified to profit or loss</b>				
Available for sale gains taken to equity		14	-	-
<b>Items that will never be reclassified to profit or loss</b>				
Actuarial gain on defined benefit pension scheme taken to equity		-	-	19
<b>Total comprehensive income for the period / year attributable to Shareholders</b>		<b>644</b>	889	2,121
Basic earnings per share (pence)	5	0.63	0.87	2.08
Diluted earnings per share (pence)	5	0.43	0.54	1.30

Manx Financial Group PLC  
Condensed Consolidated Statement of Financial Position

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As at	Notes	30 June 2016 £000 (unaudited)	30 June 2015 £000 (unaudited)	31 Dec 2015 £000 (audited)
<b>Assets</b>				
Cash and cash equivalents		5,401	5,603	7,156
Financial assets at a fair value through profit or loss	6	85	81	77
Available for sale financial instruments	7	26,487	22,771	15,981
Loans and advances to customers	8	111,745	92,532	101,356
Commissions receivable		337	322	361
Property, plant and equipment		767	654	872
Intangible assets		386	83	398
Trade and other receivables	9	1,513	1,005	1,377
Investment in joint venture		-	505	-
Deferred tax asset		20	167	83
Goodwill	10	2,344	2,444	2,344
<b>Total assets</b>		<b>149,085</b>	<b>126,167</b>	<b>130,005</b>
<b>Liabilities</b>				
Customer accounts		122,198	105,671	106,328
Creditors and accrued charges	11	3,529	2,050	3,343
Loan notes	12	8,465	7,115	7,265
Block creditors	13	1,794	-	588
Deferred consideration		-	100	-
Pension liability		285	339	334
<b>Total liabilities</b>		<b>136,271</b>	<b>115,275</b>	<b>117,858</b>
<b>Equity</b>				
Called up share capital	14	18,933	18,933	18,933
Profit and loss account		(6,119)	(8,041)	(6,786)
<b>Total equity</b>		<b>12,814</b>	<b>10,892</b>	<b>12,147</b>
<b>Total liabilities and equity</b>		<b>149,085</b>	<b>126,167</b>	<b>130,005</b>

Manx Financial Group PLC  
Condensed Consolidated Statement of Cash Flows

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	For the 6 months ended 30 June 2016 £000 (unaudited)	For the 6 months ended 30 June 2015 £000 (unaudited)	For the year ended 31 Dec 2015 £000 (audited)
<b>RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS</b>			
Profit before income tax	712	1,007	2,309
Unrealised gain on financial assets carried at fair value	(8)	(34)	(30)
Gain on disposal of property, plant and equipment	-	-	(12)
Profit on joint venture	-	(5)	(28)
Gain on acquisition of subsidiary	-	-	(28)
Depreciation charge	123	89	226
Amortisation charge	27	17	44
Bargain purchase	-	-	(295)
Realised gains on available for sale investments	(37)	(40)	(80)
Actuarial gain on defined benefit pension scheme taken to equity	-	-	19
Reduction in pension liability	(49)	(49)	(54)
Share-based payment expense	23	23	46
(Increase) / decrease in trade and other receivables	(136)	161	(208)
Increase in trade and other payables	683	335	1,168
Decrease / (increase) in commission debtors	24	4	(35)
	<hr/>	<hr/>	<hr/>
Net cash inflow from trading activities	1,362	1,508	3,042
Increase in loans and advances to customers	(10,389)	(3,194)	(11,369)
Increase in deposit accounts	15,870	5,412	6,069
	<hr/>	<hr/>	<hr/>
<b>Cash inflow / (outflow) from operating activities</b>	<b>6,843</b>	<b>3,726</b>	<b>(2,258)</b>



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

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	For the 6 months ended 30 June 2016 £000 (unaudited)	For the 6 months ended 30 June 2015 £000 (unaudited)	For the year ended 31 Dec 2015 £000 (audited)
<b>CASH FLOW STATEMENT</b>			
<b>Cash flows from operating activities</b>			
Cash inflow from operating activities	6,843	3,726	(2,258)
Taxation paid	(16)	-	(6)
<b>Net cash inflow / (outflow) from operating activities</b>	<b>6,827</b>	<b>3,726</b>	<b>(2,264)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(18)	(138)	(493)
Purchase of intangible assets	(15)	-	(21)
(Purchase) / sale of available for sale financial instruments	(10,455)	(3,957)	2,874
Acquisition of Manx Financial Limited	(500)	-	-
Acquisition of Incahoot Limited business	-	(101)	(101)
Sale of property, plant and equipment	-	-	12
Cash acquired in acquisition of subsidiary	-	-	926
<b>Net cash (outflow) / inflow from investing activities</b>	<b>(10,988)</b>	<b>(4,196)</b>	<b>3,197</b>
<b>Cash flows from financing activities</b>			
Issue / (repayment) of loan notes	1,200	(50)	100
Issue of block funding	1,206	-	-
<b>Net cash inflow / (outflow) from financing activities</b>	<b>2,406</b>	<b>(50)</b>	<b>100</b>
<b>(Decrease) / increase in cash and cash equivalents</b>	<b>(1,755)</b>	<b>(520)</b>	<b>1,033</b>
<b>Included in cash flows are:</b>			
Interest received – cash amounts	9,176	8,267	17,203
Interest paid – cash amounts	(1,621)	(1,499)	(2,906)

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 2016 £000 (unaudited)	Total 30 June 2015 £000 (unaudited)	Total 31 Dec 2015 £000 (audited)
<b>Balance brought forward</b>	18,933	(6,786)	12,147	9,980	9,980
Profit for the period / year	-	630	630	889	2,102
Other comprehensive income	-	14	14	-	19
<b>Transactions with Shareholders:</b>					
Share-based payment expense	-	23	23	23	46
<b>Balance carried forward</b>	18,933	(6,119)	12,814	10,892	12,147

### 1. Preparation of the interim statements

The financial information included in this interim financial report for the six months ended 30 June 2016 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 2015 and comply with IFRSs and IFRIC interpretations applicable to companies reporting under IFRS as adopted by the EU.

In the current period, the Terminal Funding portfolio has been separately presented as a line item in the Condensed Consolidated Income Statement, which demonstrates the contributing results of the business stream. See note 4 for further analysis.

### 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, excluding the Terminal Funding portfolio.

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

For the 6 months ended 30 June 2016	Asset and Personal Finance £000	Manx Incahoot £000	Conister Card Services £000	Edgewater Associates £000	Investing Activities £000	Total 30 June 2016 £000 (unaudited)
Net interest income / (expense)	7,586	-	-	-	(231)	7,355
Operating income / (loss)	3,454	55	(50)	671	(231)	3,899
<b>Profit/(loss) before tax payable</b>	<b>680</b>	<b>(66)</b>	<b>(51)</b>	<b>156</b>	<b>(7)</b>	<b>712</b>
Capital expenditure	15	17	-	1	-	33
<b>Total assets</b>	<b>147,680</b>	<b>426</b>	<b>116</b>	<b>582</b>	<b>281</b>	<b>149,085</b>

For the 6 months ended 30 June 2015	Asset and Personal Finance £000	Manx Incahoot £000	Conister Card Services £000	Edgewater Associates £000	Investing Activities £000	Total 30 June 2015 £000 (unaudited)
Net interest income / (expense)	6,473	-	-	-	(215)	6,258
Operating income / (loss)	3,724	39	(10)	699	(215)	4,237
<b>Profit/(loss) before tax payable</b>	<b>1,104</b>	<b>(32)</b>	<b>(82)</b>	<b>198</b>	<b>(181)</b>	<b>1,007</b>
Capital expenditure	41	83	102	-	13	239
<b>Total assets</b>	<b>124,815</b>	<b>213</b>	<b>312</b>	<b>758</b>	<b>69</b>	<b>126,167</b>

For the year ended 31 December 2015	Asset and Personal Finance £000	Manx Incahoot £000	Conister Card Services £000	Edgewater Associates £000	Investing Activities £000	Total 31 Dec 2015 £000 (audited)
Net interest income	13,543	-	-	-	-	13,543
Operating income	6,929	84	(98)	1,369	149	8,433
<b>Profit/(loss) before tax payable</b>	<b>2,299</b>	<b>203</b>	<b>(71)</b>	<b>148</b>	<b>(270)</b>	<b>2,309</b>
Capital expenditure	173	122	-	44	274	613
<b>Total assets</b>	<b>128,357</b>	<b>447</b>	<b>123</b>	<b>580</b>	<b>498</b>	<b>130,005</b>

# Manx Financial Group PLC

## Notes to the Consolidated Financial Statements

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#### 4. (Loss) / profit from Terminal Funding

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

	For the 6 months ended 30 June 2016 £000 (unaudited)	For the 6 months ended 30 June 2015 £000 (unaudited)	For the year ended 31 Dec 2015 £000 (audited)
Interest income	334	612	1,011
Fee and commission expense	(87)	(98)	(192)
Provision for impairment on loan assets	(343)	(297)	(662)
	<u>(96)</u>	<u>217</u>	<u>157</u>

#### 5. Earnings per share

	For the 6 months ended 30 June 2016 £000 (unaudited)	For the 6 months ended 30 June 2015 £000 (unaudited)	For the year ended 31 Dec 2015 £000 (audited)
<b>Profit for the period / year</b>	<b>630</b>	<b>889</b>	<b>2,102</b>
Weighted average number of ordinary shares in issue	<b>102,070,252</b>	102,070,252	102,070,252
Basic earnings per share	<b>0.62p</b>	0.87p	2.06p
Diluted earnings per share	<b>0.42p</b>	0.54p	1.29p
<b>Total comprehensive income for the period / year</b>	<b>644</b>	<b>889</b>	<b>2,121</b>
Weighted average number of ordinary shares in issue	<b>102,070,252</b>	102,070,252	102,070,252
Basic earnings per share	<b>0.63p</b>	0.87p	2.08p
Diluted earnings per share	<b>0.43p</b>	0.54p	1.30p

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.

As at	30 June 2016	30 June 2015	31 Dec 2015
<b>Reconciliation of weighted average number of ordinary shares in issue between basic and diluted earnings per share</b>			
As per basic earnings per share	<b>102,070,252</b>	102,070,252	102,070,252
Number of shares issued if all convertible loan notes were exchanged for equity (note 12)	<b>61,500,000</b>	61,500,000	61,500,000
Dilutive element of warrants if taken up (note 12)	<b>14,862,890</b>	17,804,790	17,641,990
Dilutive element of share options if exercised (note 12)	<b>-</b>	26,334	22,665
As per dilutive earnings per share	<b>178,433,142</b>	181,401,376	181,234,907
<b>Reconciliation of earnings between basic and diluted earnings per share</b>			
As per basic earnings per share	<b>£630,000</b>	£889,000	£2,102,000
Interest expense saved if all convertible loan notes were exchanged for equity (note 12)	<b>£115,075</b>	£89,575	£230,150
As per dilutive earnings per share	<b>£745,075</b>	£978,575	£2,332,150

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

## 6. 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.

## 7. 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.

## 8. Loans and advances to customers

As at	30 June 2016 £000 (unaudited)	30 June 2015 £000 (unaudited)	31 Dec 2015 £000 (audited)
Hire purchase	60,674	54,932	61,678
Finance leases	11,008	11,615	9,584
Unsecured personal loans	15,345	3,966	3,843
Vehicle stocking plans	1,219	1,057	1,119
Block discounting	13,490	6,828	8,935
Secured commercial loans	4,900	6,497	4,858
Secured personal loans	5,109	7,637	11,339
	<b>111,745</b>	<b>92,532</b>	<b>101,356</b>

## 9. Trade and other receivables

As at	30 June 2016 £000 (unaudited)	30 June 2015 £000 (unaudited)	31 Dec 2015 £000 (audited)
VAT claim	690	466	466
Prepayments and other debtors	769	485	857
Depositors' Compensation Scheme Receivable	54	54	54
	<b>1,513</b>	<b>1,005</b>	<b>1,377</b>

Included in trade and other receivables is an amount of £690,000 (30 June & 31 December 2015: £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 (VWFS) v HM Revenue & Customs (TC01401) (VWFS Decision) added significant weight to the case put by the Bank and a request for a revised Partial Exemption Special Method was submitted in December 2011. The proposal put forward by the Bank was that the revised method would allocate 50% 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. A secondary claim is also about to be made to cover periods Q4 2012 to Q1 2016 for the value of £224,000.

In November 2012, it was announced that the HMRC Upper Tribunal had overturned the First-Tier Tribunal in relation to the VWFS Decision. VWFS has subsequently been given leave to appeal and this was scheduled to be heard in October 2013. However, this was delayed and the case was heard by the Court of Appeal on 17 April 2015 who overturned the Upper Tribunal's decision ruling in favour of VWFS. HMRC have now been given leave to appeal this decision to the Supreme Court.

The Bank's total exposure in relation to this matter has increased to £813,000, 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 Decision appeal, the Directors are confident that the VAT claimed referred to above will be secured.

# Manx Financial Group PLC

## Notes to the Consolidated Financial Statements

# 12

### 10. Goodwill

As at	30 June 2016 £000 (unaudited)	30 June 2015 £000 (unaudited)	31 Dec 2015 £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
	2,344	2,444	2,344

### 11. Creditors and accrued charges

As at	30 June 2016 £000 (unaudited)	30 June 2015 £000 (unaudited)	31 Dec 2015 £000 (audited)
Commission creditors	2,736	1,610	2,313
Other creditors and accruals	793	440	530
Consideration of acquisition of Manx Financial Limited	-	-	500
	3,529	2,050	3,343

### 12. Loan notes

As at	Notes	30 June 2016 £000 (unaudited)	30 June 2015 £000 (unaudited)	31 Dec 2015 £000 (audited)
<b>Related parties</b>				
J Mellon	<b>JM</b>	1,750	1,750	1,750
Burnbrae Limited	<b>BL</b>	1,200	1,200	1,200
Southern Rock Insurance Company Limited	<b>SR</b>	460	460	460
Life Science Developments Limited	<b>LS</b>	500	500	500
		3,910	3,910	3,910
<b>Unrelated parties</b>				
	<b>UP</b>	4,555	3,205	3,355
		8,465	7,115	7,265

**JM** – Two loans, one of £500,000 maturing on 31 July 2017 with interest payable of 7.0% per annum, and one of £1,250,000 maturing on 26 February 2020, paying interest of 6.5% per annum. Both loans are convertible at the rate of 4 pence and 9 pence respectively. JM is also entitled to 8.3 million warrants at an exercise price of 6 pence which lapse on 31 July 2017.

**BL** – One loan consisting of £1,200,000 maturing on 31 July 2017 with interest payable of 7.0% per annum. Jim Mellon is the beneficial owner of BL and Denham Eke, an Executive Director, 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 major shareholder of the Group, is a director and a major shareholder of SR. John Banks, a Non-executive Director, is also a director of SR.

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

**UP** – Nineteen loans consisting of an average £239,737, with an average interest payable of 5.18% per annum. The earliest maturity date is 1 October 2016 and the latest maturity is 4 May 2021.

With respect to the convertible loans, the interest rate applied was deemed by the Directors to be equivalent to the market rate with no conversion option.

### 13. Block creditors

As at	30 June 2016 £000 (unaudited)	30 June 2015 £000 (unaudited)	31 Dec 2015 £000 (audited)
Drawdown 1 – repayable 25/12/2016, interest payable at 5.6%, secured on assets of Manx Financial Limited	98	-	194
Drawdown 2 – repayable 25/07/2018, interest payable at 5.6%, secured on assets of Manx Financial Limited	322	-	394
Drawdown 3 – repayable 29/03/2019, interest payable at 6.3%, secured on assets of Manx Financial Limited	1,374	-	-
	<b>1,794</b>	-	588

### 14. Called up share capital

Authorised: ordinary shares of no par value	Number	
At 30 June 2015	150,000,000	
At 31 December 2015	150,000,000	
<b>At 30 June 2016</b>	<b>150,000,000</b>	

  

Issued and fully paid: ordinary shares of no par value	Number	£000
At 30 June 2015	102,070,252	18,933
At 31 December 2015	102,070,252	18,933
<b>At 30 June 2016</b>	<b>102,070,252</b>	<b>18,933</b>

There are a number of convertible loans at 30 June 2016 of £3.41 million (30 June and 31 December 2015: £3.41 million) including warrants of 28.3 million (30 June and 31 December 2015: 28.3 million) (see note 12 for further details). The total number of warrants in issue at 30 June 2016 is 36.6 million (30 June and 31 December 2015: 36.6 million) (see note 12 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.

### 15. Regulators

The Group is regulated by the Isle of Man Government Financial Services Authority licensed to undertake banking activities and conduct investment business. In addition the Group is regulated by the Financial Conduct Authority in the United Kingdom for credit and brokerage related activities.

### 16. 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 Bank to participate in the compensation of depositors should it be activated.

### 17. Approval of Interim Statements

The Interim Statements were approved by the Board on 29 September 2016. The interim report will be available from that date at the Group's website – [www.mfg.im](http://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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