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MANX FINANCIAL

GROUP PLC

INTERIM REPORT 2017

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 ("MFG") is an AIM-listed company (LSE: MFX.L) which has subsidiaries engaged in a suite of financial services 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
- Manx FX Limited.

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 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 £256 million.

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

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

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

Manx FX Limited was formed on 21 July 2014 and provides specialist solutions and access to competitive foreign exchange and international payment processing facilities.

Manx Financial Group PLC
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Jim Mellon
Chairman

Dear Shareholders,

Manx Financial Group PLC 2017 Interim Results

Group Overview
Following my Chairman's Statement in the 2016 Annual Report and Accounts, you will be pleased to note that the out-turn for the first six months of 2017 has reverted to our previous levels of profitability by showing substantial and sustained progress throughout the Group. For this period, our profit before income tax stands at £0.9 million (2016: £0.7 million), which represents a growth of just over 30%. This increase is even more impressive if last year's non-operating items, such as a VAT recovery of £0.3 million, are stripped out. On this basis, the like-for-like operating growth is over 89%. You will recall at this time last year, our Interim profit before income tax declined by nearly 30% over the same period in 2015. Thus, it is important to understand that this year's Interim figure is a clear reflection of our current operating success, showing as it does a re-positioning of our strategic priorities and a re-focus on our core competences, with a particular emphasis on prudent new business generation and acquisition.

Equally significant are the improvements we have made to strengthen our Balance Sheet. If we look back two years to the 2015 Interim results, our total assets then stood at £126.2 million. This half, our total assets have increased to now stand at £174.3 million (2016: £149.1 million). This represents a growth of nearly 17% over the same period last year, and a growth of 34% over the equivalent 2015 figure. Taking the same three periods, our loan book has increased from £92.5 million at 2015's half-year, to a current figure of £123.5 million (2016: £111.8 million): a growth of 38% in total. During this time, our loan impairment provisions have remained steady at £0.2 million (2016: £0.2 million) for this half, and against £0.3 million in 2015, demonstrating the success of our policies of prudential lending. Cash and near-cash currently stands at £44.3 million (2016: £31.9 million), providing the liquidity for further lending opportunities as we continue to expand the regulatory capital base required to support the continuing new business growth. Finally, our total equity has increased to £14.0 million (2016: £12.8 million) as we progressively reduce our retained earnings deficit which, incidentally, stood at negative £8.0 million in 2015 and is now standing at negative £5.0 million (2016: negative £6.1 million).

Basic earnings per share are up 27% to 0.79 pence (2016: 0.62 pence) and fully diluted earnings per share are up 26% to 0.53 pence (2016: 0.42 pence). Shareholder equity at £14.0 million (2016: £12.8 million) has grown by 9%.

Turning to our principal operating subsidiaries: -

Conister Bank Limited (the "Bank")
The Bank's net interest income has increased to £8.8 million (2016: £7.5 million), a growth of 17% and is a testament to the excellence of our sales teams and a reflection of a robust new business pipeline developed over the last nine months, underpinned by steady and favourable borrowing interest rates. Yet again, our Isle of Man direct lending has beaten our expectations with a consistent monthly new business figure in excess of £1.5 million, which has continued throughout the first half and beyond. Also, our direct lending into the UK market continues to perform well, by more than trebling business underwritten from this source in the last twelve months. The combined strength of our direct business has the added advantage of helping the decrease of our reliance on the UK bulk scheme products introduced since 2014, with their onerous commission sharing arrangements and disproportionate weighting within our loan balances. The increase of 26% in operating income at £4.2 million (2016: £3.4 million) reflects the comparative stabilisation of our commission expense of £4.7 million (2016: £4.2 million) - a cost of sales which we monitor closely. We have maintained personnel expenses at £1.2 million (2016: £1.1 million) and the growth of administration expenses at £1.3 million (2016: £0.5 million) over the previous year in the main reflects a provision for legal fees of £0.2 million associated with new product development, an adverse movement in our disallowed VAT liability of £0.2 million and a provision of £0.2 million for additional introducer commission not previously recorded. Thus, although the pre-tax profit for the period of £1.2 million (2016: £1.6 million) ostensibly indicates a decline of 22%, £0.6 million has been taken into the Balance Sheet as a prudent buffer against expenses which may not fully eventuate.

Turning to the Bank's Balance Sheet, total assets have grown by 17% to £168.9 million (2016: £144.4 million) as the loan book has increased, supported by a commensurate improvement in cash, customer deposits and equity.

In considering the markets in which we operate, there has been considerable adverse comment about the current volume of UK consumer credit and, in particular, how exposure to Personal Contract Purchase ("PCP") car finance has contributed to the problematic rising levels of personal debt. I am pleased to report that the Bank has no exposure to the UK PCP market and can confirm that our direct motor business is entirely asset backed. In addition, our bulk schemes include loss pools which require the introducer to repurchase and replace non-performing loans. The excellence of our underwriting in both the Isle of Man and the UK is evidenced by the exceptionally low levels of arrears and provisions we enjoy - a position we have maintained for some years. We are in the process of completing the run-off of our remaining exposure to our original commitment to UK Terminals finance: a business we ceased underwriting over three years ago following the difficulty and expense in enforcing collections for relatively small unit values by our then partner. We have now taken the entire management of this run-off in-house and we are in the process of evaluating whether this type of business has further opportunities under our direct management control.

I have written about our IT infrastructure in the past and I am now pleased to report that we are entering the final phase of replacing the entire IT systems connected with our deposit taking, with the attendant improvements to both customer experience and internal operations. By the end of the year, we will also have an automated web-based lending platform, initially trialling within the Isle of Man car finance market, with the intention of extending this to Isle of Man and then UK direct loans. Again, we expect to see an increase in business derived from these sources as response times to customer loan requests will be almost immediate. Our investment in IT infrastructure will place us at the forefront of web-based rapid-response loan enquiries by providing a "24/7" service that is scalable in terms of volume and in the minimisation of additional operating overhead.

Finally, I would like to welcome David Gibson as Chairman of the Bank in succession to Neil Duggan, who has retired following the conclusion of his contract. David has been an independent non-executive director of both the Group and Bank since 2008 and brings to the position a wealth of experience and strategic direction which will serve us well for the future. We wish Neil a long and happy retirement and thank him for his significant contribution to the Group and Bank. In announcing this change, I would also like to welcome two further appointments: Douglas Grant to the position of Managing Director, and James Smeed as Financial Director in succession to Douglas. Douglas has been with us since 2008, joining the Group Board as Chief Financial Officer and Financial Director of the Bank in 2010, and has been instrumental in shaping both entities to the structure we have today. James, who has been with us since 2012, having joined us from KPMG, where he held the position of Senior Audit Manager. Again, we wish Douglas and James every success in their new roles and they have already brought a new vitality to all aspects of the operation. I am particularly pleased that each of these new senior appointments represents an internal promotion, demonstrating that we provide clear career opportunities for our staff both within the Bank, and indeed, the Group.

Edgewater Associates Limited ("EWA")
Following the acquisition of the books and certain of the staff from Knox Financial Services Limited in December 2016 and January 2017, EWA has now established itself as the largest independent financial advisor on the Isle of Man. I am pleased to report that not only are we well along the path of integrating the new businesses into our various platforms, but also the financial impact on profitability is tangible and exceeds our original expectations. At the six-month point, our operating income has grown to £1.3 million (2016: £0.7 million), a growth of just over 91%. Despite the anticipated increase in personnel expenses to £0.5 million (2016: £0.3 million) and administration expenses to £0.4 million (2016: £0.2 million), the enlarged EWA profit for the period is £0.4 million (2016: £0.2 million) – a commendable increase of 157%. Of further note is the profitable development of EWA's general insurance brokerage, now able to offer competitive cover to both businesses and individuals on the Isle of Man.

Again, turning to EWA's Balance Sheet, total assets have grown by 105% to £2.7 million (2016: £1.3 million) and total equity has increased by 55% to £1.7 million (2016: £1.1 million) – reflecting the success of the merger of the acquisitions.

EWA is well poised to capitalise on the Isle of Man's requirement for a respected independent financial advisory, a market which remains buoyant. Our staff of 13 fully qualified advisors, supported by a further 13 client managers, are well able to accommodate additional business, generated both from the existing client base and from the stream of the new introductions that we have experienced in the year to date.

I am also pleased to welcome Robert Frize as independent non-executive director to the EWA board, subject to regulatory confirmation. Robert brings invaluable expertise to EWA being a Policy Consultant to the Isle of Man Financial Services Authority and a board member of the Isle of Man Communications Commission. Prior to this, Robert was Managing Director of both BoE Life International Limited and BoE Portfolio Management Services Limited, both part of London Capital Group Holdings PLC.

Manx FX Limited ("MFX")
I would also like to make mention of a relatively new venture, MFX, whereby we provide a consultancy to businesses requiring access to foreign exchange dealing at rates considerably more competitive than those offered through the traditional banking market. In providing this service, we are insulated from any foreign exchange exposure as any currency fluctuation risk remains entirely with the companies we advise. After a slow start, I am pleased to report that MFX generated an operating income of £0.1 million in the first half, a figure considerably in excess of our initial expectations to this point.

One further advantage is that MFX's treasury management expertise is available to both the Group and the Bank as the requirement for administering the considerable liquidity we enjoy becomes increasingly complex.

I am also pleased to welcome Julian Trinder as independent non-executive director to the MFX board. Julian has extensive experience in venture capital funding and the active wealth management of a number of substantial family offices. Prior to this, Julian had a number of senior banking roles in multiple jurisdictions, culminating with Fortis MeesPierson.

Outlook
Post period, I am pleased to announce that, following a sale of warrants by my own interests, we have increased the regulatory capital available to the Group by just over £1 million. The sale was made to a party connected to me, namely Dr Greg Bailey, and our intention is to invite him to join the Group board as soon as the regulatory formalities have been concluded. A further announcement about this appointment will be made in due course. In addition, both I and interests connected to Arron Banks, a major shareholder, have informally and independently indicated to the Group that we are prepared to make available non-dilutive regulatory capital in the form of qualifying unsecured loans on an arms-length basis to support further lending growth within the Bank.

Our future strategy is to develop our existing product base to its fullest extent, while introducing new products with appeal to targeted market sectors. I have indicated that our new business pipeline is stronger than it has ever been and we are working hard to minimise the time taken to convert this pipeline into actual loans, but always with the consideration that our underwriting must be both prudent but commercial. In addition to this, we are always on the lookout for suitable acquisitions to augment our portfolio. The financial services market is experiencing a period of change and consolidation and there are a number of opportunities available to us. The Group Board has considered alternative methods of financing appropriate and suitable acquisitions on a non-dilutive basis and we are considering entering the bond market as a potential source of new capital. We believe that only now have we both the track record and scale to access alternative finance on reasonable terms, and that the previous limitations to regulatory capital growth are behind us.

I have made mention of the substantial commission payments that the Bank makes to our UK introducers. One obvious way to ameliorate this expense is either to develop or to acquire our own UK distribution network. In doing so, we will be careful not to enter into direct competition with our existing sources, but will seek specialist but profitable niche lending opportunities where our presence will not cannibalise our current UK business. I hope to make a further announcement about this initiative in due course.

Again, post period, EWA recently announced the purchase of Isle of Man-based Balla Brokers (Insurance Services) Limited, an independent general insurance brokerage, continuing the strategy of taking advantage of local consolidation opportunities to augment our existing operations. I anticipate that further consolidations will take place during the second half of 2017 and will be announced as they occur.

In short, our trading prospects for the full year are extremely encouraging. As a consequence, we will take the opportunity in the next six months to undertake a further strengthening of the Group's Balance Sheet. Not only will this be a prudent measure, but will also set us in good stead for the introduction of the IFRS 9 accounting standard which becomes mandatory from January 2018. The principal effect of the adoption of this standard means that we, in conjunction with all other IFRS-reporting banks and other financial institutions, will be required to test each of the Bank's loans for its take-on value against a desk-top calculation of the present value of credit losses from default events projected over the future 12 months. The amount reflected by any increase or decrease in risk will be charged to the Income Statement and will inevitably lead to a greater volatility in our profit reporting in future years. I must emphasise that impairment losses, if any, recognised by IFRS 9 are no more likely to be actual cash items than our reporting under current accounting standards. The introduction of this new standard is a direct reaction to the 2008 financial crisis whereby perceived deficiencies were believed to have contributed to the magnitude of the crisis.

Finally, and as always, I would like to thank our shareholders and staff for their loyalty to the Group as we continue to consolidate and grow our various businesses.

Jim Mellon
Executive Chairman
21 September 2017

	Notes	For the 6 months ended 30 June 2017 £000 (unaudited)	For the 6 months ended 30 June 2016 £000 (unaudited)	For the year ended 31 Dec 2016 £000 (audited)
Continuing operations				
Interest income	2	**10,218**	9,030	19,369
Interest expense		**(1,643)**	(1,675)	(3,368)
Net interest income		**8,575**	7,355	16,001
Fee and commission income		**1,434**	755	1,660
Fee and commission expense		**(4,675)**	(4,215)	(9,106)
Net trading income		**5,334**	3,895	8,555
Other operating income		**32**	100	198
Terminal funding	4	**1**	(96)	(154)
Operating income		**5,367**	3,899	8,599
Personnel expenses		**(2,289)**	(1,962)	(3,935)
Other expenses		**(1,756)**	(1,161)	(2,706)
Provision for impairment on loan assets		**(232)**	(183)	(447)
Depreciation		**(127)**	(123)	(246)
Amortisation		**(26)**	(27)	(80)
VAT recovery	9	**-**	224	295
Realised gains on available-for-sale financial assets		**11**	37	71
Unrealised (loss) / gain on financial assets carried at fair value		**(21)**	8	(6)
Profit before income tax		**927**	712	1,545
Income tax expense		**(118)**	(82)	(244)
Profit for the period / year		**809**	630	1,301
Basic earnings per share (pence)	5	**0.79**	0.62	1.27
Diluted earnings per share (pence)	5	**0.53**	0.42	0.87

	Notes	**For the 6 months ended 30 June 2017 £000 (unaudited)**	For the 6 months ended 30 June 2016 £000 (unaudited)	For the year ended 31 Dec 2016 £000 (audited)
Profit for the period / year		**809**	630	1,301
Other comprehensive income:				
Items that will be reclassified to profit or loss				
Available for sale (losses) / gains taken to equity		**(19)**	14	(8)
Items that will never be reclassified to profit or loss				
Actuarial loss on defined benefit pension scheme taken to equity		**-**	-	(316)
Total comprehensive income for the period / year attributable to Shareholders		**790**	644	977
Basic earnings per share (pence)	**5**	**0.77**	0.63	0.96
Diluted earnings per share (pence)	**5**	**0.52**	0.43	0.68

As at	Notes	30 June 2017 £000 (unaudited)	30 June 2016 £000 (unaudited)	31 Dec 2016 £000 (audited)
Assets				
Cash and cash equivalents		**6,316**	5,401	6,129
Financial assets at a fair value through profit or loss	6	**49**	85	70
Available for sale financial instruments	7	**32,428**	26,487	23,991
Held to maturity financial instruments	7	**5,508**	-	-
Loans and advances to customers	8	**123,537**	111,745	116,053
Commissions receivable		**489**	337	332
Property, plant and equipment		**661**	767	719
Intangible assets		**1,364**	386	1,316
Trade and other receivables	9	**1,566**	1,513	1,732
Deferred tax asset		**-**	20	-
Goodwill	10	**2,344**	2,344	2,344
Total assets		**174,262**	149,085	152,686
Liabilities				
Customer accounts		**146,245**	122,198	125,952
Creditors and accrued charges	11	**3,450**	3,529	2,975
Loan notes	12	**8,895**	8,465	8,545
Block creditors	13	**1,075**	1,794	1,390
Deferred tax liability		**42**	-	40
Pension liability		**573**	285	614
Total liabilities		**160,280**	136,271	139,516
Equity				
Called up share capital	14	**18,933**	18,933	18,933
Profit and loss account		**(4,951)**	(6,119)	(5,763)
Total equity		**13,982**	12,814	13,170
Total liabilities and equity		**174,262**	149,085	152,686

	For the 6 months ended 30 June 2017 £000 (unaudited)	For the 6 months ended 30 June 2016 £000 (unaudited)	For the year ended 31 Dec 2016 £000 (audited)
RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS			
Profit before income tax	**927**	712	1,545
Unrealised loss / (gain) on financial assets carried at fair value	**21**	(8)	6
Gain on disposal of property, plant and equipment	**(3)**	-	-
Depreciation	**127**	123	246
Amortisation	**26**	27	80
Actuarial loss on defined benefit pension scheme taken to equity	**-**	-	(316)
(Decrease) / increase in pension liability	**(41)**	(49)	280
Share-based payment expense	**22**	23	46
Decrease / (increase) in trade and other receivables	**166**	(136)	(355)
Increase in trade and other payables	**359**	683	47
(Increase) / decrease in commission debtors	**(157)**	24	29
Net cash inflow from trading activities	**1,447**	1,399	1,608
Increase in loans and advances to customers	**(7,484)**	(10,389)	(14,697)
Increase in deposit accounts	**20,293**	15,870	19,624
Cash inflow from operating activities	**14,256**	6,880	6,535

	For the 6 months ended 30 June 2017 £000 (unaudited)	For the 6 months ended 30 June 2016 £000 (unaudited)	For the year ended 31 Dec 2016 £000 (audited)
CASH FLOW STATEMENT			
Cash flows from operating activities			
Cash inflow from operating activities	**14,256**	6,880	6,535
Taxation paid	**-**	(16)	(36)
Net cash inflow from operating activities	**14,256**	6,864	6,499
Cash flows from investing activities			
Purchase of property, plant and equipment	**(83)**	(18)	(93)
Purchase of intangible assets	**-**	(15)	(50)
Purchase of available for sale financial instruments	**(8,456)**	(10,492)	(8,017)
Purchase of held to maturity financial instruments	**(5,508)**	-	-
Acquisition of Manx Financial Limited	**-**	(500)	(500)
Acquisition of MBL and Lasenby Knox business	**(74)**	-	(948)
Sale of property, plant and equipment	**17**	-	-
Net cash outflow from investing activities	**(14,104)**	(11,025)	(9,608)
Cash flows from financing activities			
Issue of loan notes	**450**	1,200	1,430
Repayment of loan notes	**(100)**	-	(150)
(Repayment) / issue of block funding	**(315)**	1,206	802
Net cash inflow from financing activities	**35**	2,406	2,082
Increase / (decrease) in cash and cash equivalents	**187**	(1,755)	(1,027)
Included in cash flows are:			
Interest received - cash amounts	**10,383**	9,176	18,628
Interest paid - cash amounts	**(1,590)**	(1,621)	(3,260)

	Share capital £000	Retained earnings and other reserves £000	Total 30 June 2017 £000 (unaudited)	Total 30 June 2016 £000 (unaudited)	Total 31 Dec 2016 £000 (audited)
Balance brought forward	18,933	(5,763)	13,170	12,147	12,147
Profit for the period / year	-	809	809	630	1,301
Other comprehensive income	-	(19)	(19)	14	(324)
Transactions with Shareholders:					
Share-based payment expense	-	22	22	23	46
Balance carried forward	18,933	(4,951)	13,982	12,814	13,170

1. Preparation of the interim statements

The financial information included in this interim financial report for the six months ended 30 June 2017 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 2016 and comply with IFRSs and IFRIC interpretations applicable to companies reporting under IFRS as adopted by the EU.

In the current period, held to maturity financial instruments have been acquired and shown as a separate line item on the Statement of the Financial Position. Held to maturity financial instruments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. See note 7 for further details.

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 five 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; Edgewater Associates; and Manx FX.

For the 6 months ended 30 June 2017	**Asset and Personal Finance £000**	**Manx Incahoot £000**	**Conister Card Services £000**	**Edgewater Associates £000**	**Manx FX £000**	**Investing Activities £000**	**Total 30 June 2017 £000 (unaudited)**
Net interest income / (expense)	**8,825**	**-**	**-**	**-**	**-**	**(250)**	**8,575**
Operating income / (loss)	**4,235**	**29**	**(53)**	**1,282**	**124**	**(250)**	**5,367**
Profit / (loss) before tax payable	**966**	**(98)**	**(51)**	**401**	**47**	**(338)**	**927**
Capital expenditure	**68**	**1**	**-**	**14**	**-**	**-**	**83**
Total assets	**169,609**	**404**	**-**	**2,024**	**163**	**2,062**	**174,262**

For the 6 months ended 30 June 2016	Asset and Personal Finance £000	Manx Incahoot £000	Conister Card Services £000	Edgewater Associates £000	Manx FX £000	Investing Activities £000	Total 30 June 2016 £000 (unaudited)
Net interest income / (expense)	7,586	-	-	-	-	(231)	7,355
Operating income / (loss)	3,421	55	(50)	671	33	(231)	3,899
Profit / (loss) before tax payable	715	(66)	(51)	156	(35)	(7)	712
Capital expenditure	15	17	-	1	-	-	33
Total assets	147,646	426	116	582	34	281	149,085

For the year ended 31 December 2016	Asset and Personal Finance £000	Manx Incahoot £000	Conister Card Services £000	Edgewater Associates £000	Manx FX £000	Investing Activities £000	Total 31 Dec 2016 £000 (audited)
Net interest income / (expense)	16,001	-	-	-	-	-	16,001
Operating income / (loss)	7,047	81	(106)	1,465	111	1	8,599
Profit / (loss) before tax payable	1,787	(205)	(223)	371	(26)	(159)	1,545
Capital expenditure	69	52	-	970	-	-	1,091
Total assets	148,523	418	2	1,546	102	2,095	152,686

4. 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 in 2016 to permanently cease funding and wind up the book upon the final repayment date of August 2019.

	For the 6 months ended 30 June 2017 £000 (unaudited)	For the 6 months ended 30 June 2016 £000 (unaudited)	For the year ended 31 Dec 2016 £000 (audited)
Interest income	**200**	334	601
Fee and commission expense	**(53)**	(87)	(166)
Provision for impairment on loan assets	**(146)**	(343)	(589)
	1	(96)	(154)

5. Earnings per share

	For the 6 months ended 30 June 2017 (unaudited)	For the 6 months ended 30 June 2016 (unaudited)	For the year ended 31 Dec 2016 (audited)
Profit for the period / year (£000)	**£809**	£630	£1,301
Weighted average number of ordinary shares in issue	**102,070,252**	102,070,252	102,070,252
Basic earnings per share (pence)	**0.79**	0.62	1.27
Diluted earnings per share (pence)	**0.53**	0.42	0.87
Total comprehensive income for the period / year (£000)	**£790**	£644	£977
Weighted average number of ordinary shares in issue	**102,070,252**	102,070,252	102,070,252
Basic earnings per share (pence)	**0.77**	0.63	0.96
Diluted earnings per share (pence)	**0.52**	0.43	0.68

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 2017 (unaudited)**	30 June 2016 (unaudited)	31 Dec 2016 (audited)
Reconciliation of weighted average number of ordinary shares in issue between basic and diluted earnings per share			
As per basic earnings per share	**102,070,252**	102,070,252	102,070,252
Number of shares issued if all convertible loan notes were exchanged for equity (note 12)	**61,500,000**	61,500,000	61,500,000
Dilutive element of warrants if taken up (note 12)	**12,155,768**	14,862,890	12,733,968
Dilutive element of share options if exercised (note 12)	**-**	-	-
As per dilutive earnings per share	**175,726,020**	178,433,142	176,304,220
Reconciliation of earnings between basic and diluted earnings per share			
As per basic earnings per share	**£809,000**	£630,000	£1,301,000
Interest expense saved if all convertible loan notes were exchanged for equity (note 12)	**£115,075**	£115,075	£230,150
As per dilutive earnings per share	**£924,075**	£745,075	£1,531,150

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 and held to maturity 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. Held to maturity financial instruments represent corporate bonds in a UK banking institution with a Fitch credit rating of A (stable). Held to maturity financial instruments are carried at amortised cost using the effective interest method, less any impairment losses.

8. Loans and advances to customers

As at	**30 June 2017 £000 (unaudited)**	30 June 2016 £000 (unaudited)	31 Dec 2016 £000 (audited)
Hire purchase	**62,419**	60,674	60,643
Finance leases	**16,694**	11,008	14,106
Unsecured personal loans	**8,619**	15,345	6,476
Vehicle stocking plans	**1,455**	1,219	1,366
Block discounting	**15,241**	13,490	13,213
Secured commercial loans	**1,299**	4,900	2,245
Secured personal loans	**17,810**	5,109	18,004
	123,537	111,745	116,053

9. Trade and other receivables

As at	**30 June 2017 £000 (unaudited)**	30 June 2016 £000 (unaudited)	31 Dec 2016 £000 (audited)
VAT claim	**752**	690	752
Prepayments and other debtors	**708**	769	874
Depositors' Compensation Scheme Receivable	**54**	54	54
Monies held in escrow from MBL acquisition	**52**	-	52
	1,566	1,513	1,732

Included in Trade and other receivables is an amount of £752,000 (30 June 2016: £690,000 and 31 December 2016: £752,000) relating to a reclaim of value added tax ("VAT"). 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 50.0% of costs in respect of HP transactions to a taxable supply and 50.0% to an exempt supply. In addition at this time a Voluntary Disclosure was made as a retrospective claim for input VAT under-claimed in the last 4 years. A secondary claim has been made to cover periods Q4 2012 to Q1 2016 for the value of £224,000 with an additional accrual of £71,000 for periods Q2 2016 to Q4 2016.

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

9. Trade and other receivables (continued)

The Bank's total exposure in relation to this matter has increased to £865,000, comprising the debtor balance referred to above plus an additional £113,000 VAT reclaimed under the partial Exemption Special Method, in the period from Q4 2011 to Q3 2012 (from Q4 2012 the Bank reverted back to the previous method). On the basis of the discussions and correspondence which have taken place between the Bank and C&E, in addition to the VWFS case, the Directors are confident that the VAT claimed referred to above will be secured.

10. Goodwill

As at	**30 June 2017 £000 (unaudited)**	30 June 2016 £000 (unaudited)	31 Dec 2016 £000 (audited)
Edgewater Associates Limited	**1,849**	1,849	1,849
ECF Asset finance PLC	**454**	454	454
Three Spires Insurance Services Limited	**41**	41	41
	2,344	2,344	2,344

11. Creditors and accrued charges

As at	**30 June 2017 £000 (unaudited)**	30 June 2016 £000 (unaudited)	31 Dec 2016 £000 (audited)
Commission creditors	**2,268**	2,736	2,504
Other creditors and accruals	**957**	793	363
Taxation creditors	**225**	-	108
	3,450	3,529	2,975

12. Loan notes

As at	Notes	**30 June 2017 £000 (unaudited)**	30 June 2016 £000 (unaudited)	31 Dec 2016 £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
Life Science Developments Limited	**LS**	**250**	500	350
		3,660	3,910	3,760
Unrelated parties	**UP**	**5,235**	4,555	4,785
		8,895	8,465	8,545

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 8,332,833 warrants at an exercise price of 6 pence which lapse on 31 July 2017. See note 17 for details of the post balance sheet renewal of these loans and warrants.

BL – One loan consisting of £1,200,000 maturing on 31 July 2017 with interest payable of 7.0% per annum. Jim Mellon is the beneficial owner of BL and Denham Eke is also a director. The loan is convertible at a rate of 4 pence. BL is also entitled to 20,000,500 warrants at an exercise price of 6 pence which lapse on 31 July 2017. See note 17 for details of the post balance sheet renewal of these loans and warrants.

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 8,333,333 warrants on a previously converted loan note at an exercise price of 6 pence which lapse on 24 October 2017. Arron Banks is a major shareholder of SR. John Banks, a Non-executive Director, is also a director of SR. See note 17 for details of the post balance sheet assignment of the warrants.

12. Loan notes (continued)

LS - One loan of £250,000 maturing on 5 September 2017 with interest payable of 5.0% per annum. Denham Eke is a director of LS.

UP - Twenty three loans consisting of an average £227,609, with an average interest payable of 5.2% per annum. The earliest maturity date is 1 October 2017 and the latest maturity is 3 January 2022.

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 2017 £000 (unaudited)**	30 June 2016 £000 (unaudited)	31 Dec 2016 £000 (audited)
Drawdown 1 – repayable 25/12/2016, interest payable at 5.6%, secured on assets of Manx Financial Limited	**-**	98	-
Drawdown 2 – repayable 25/07/2018, interest payable at 5.6%, secured on assets of Manx Financial Limited	**172**	322	248
Drawdown 3 – repayable 29/03/2019, interest payable at 6.3%, secured on assets of Manx Financial Limited	**903**	1,374	1,142
	1,075	1,794	1,390

14. Called up share capital

Ordinary shares of no par value available for issue	**Number**
At 30 June 2016	150,000,000
At 31 December 2016	150,000,000
At 30 June 2017	**200,200,000**

Issued and fully paid: ordinary shares of no par value	**Number**	**£000**
At 30 June 2016	102,070,252	18,933
At 31 December 2016	102,070,252	18,933
At 30 June 2017	**102,070,252**	**18,933**

There are a number of convertible loans at 30 June 2017 of £3,410,000 (30 June and 31 December 2016: £3,410,000) including warrants of 28,333,333 (30 June and 31 December 2016: 28,333,333) (see note 12 for further details). The total number of warrants in issue at 30 June 2017 is 36,666,666 (30 June and 31 December 2016: 36,666,666) (see note 12 for further details).

On 23 June 2014, 1,750,000 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. Of the 1,750,000 share options issued, 1,050,000 (30 June and 31 December 2016: 1,750,000) remain outstanding.

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

The 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 and creates a liability on the Bank to participate in the compensation of depositors should it be activated.

17. Post balance sheet events

On 28 July 2017, Burnbrae Limited assigned 16,835,750 warrants of its 20,000,500 to Dr Greg Bailey, who in turn exercised the warrants at the strike rate of 6 pence per share. This created additional share capital of £1,010,145.

On 27 July 2017, Southern Rock Insurance Company Limited assigned its 8,333,333 warrants to ICS Risk Solutions Limited, which has a common ultimate beneficial ownership. The terms of these warrants remain unchanged.

On 31 July 2017, Jim Mellon and Burnbrae Limited renewed their £500,000 and £1,200,000 convertible loan notes respectively, which were due to expire on 31 July 2017. The terms of the renewal are for a further five years at a reduced interest rate of 5.0% per annum (previously 7.0%) and an increased strike rate of 7.5 pence per share (previously 4 pence) for the conversion.

The 11,497,583 remaining warrants (8,332,833 held by Jim Mellon and 3,164,750 by Burnbrae Limited) were also renewed until 24 October 2017 but with an increased strike rate of 7.5 pence per share (previously 6 pence).

18. Approval of Interim Statements

The Interim Statements were approved by the Board on 21 September 2017. 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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