MANX FINANCIAL GROUP PLC

INTERIM REPORT 2018

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 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. Our strategy is to grow organically and through strategic acquisition to further augment the range of services we offer.

Principal wholly owned subsidiaries:-

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

ConisterBank

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 member of the Isle of Man's Association of Licensed Banks.

The Bank provides a variety of financial products and services, including savings accounts, asset financing, personal loans, loans to small and medium sized enterprises, block discounting and other specialist secured credit facilities to the Isle of Man and the UK consumer and business sectors.

EDGEWATER

Edgewater Associates Limited ("EWA") is the largest independent financial adviser in the Isle of Man.

We provide a bespoke and personal service to Isle of Man residents and to the Group's business and personal customers, advising on assets in excess of £303 million.

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

MANX FOREIGN EXCHANGE

Manx FX Limited was formed in 2014 and provides specialist assistance and access to competitive foreign exchange markets and international payment processing facilities.

CONISTER CARD SERVICES

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

incahoot™ better together

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

Manx Financial Group PLC
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Jim Mellon
Chairman

Dear Shareholders,

Group Overview

I am pleased to report that the half year continues our progressive growth in profitability and puts us well on the road to the realisation of our strategic objectives. For the first six months of 2018, our profit before tax stands at £1.4 million (2017: £0.9 million), representing a growth of just over 43% against the same period last year (2017: 30%). Furthermore, our post tax profit increased by 52% to £1.2 million (2017: £0.8 million). This outcome represents yet another milestone in the history of the Group.

This result is a combination of our excellent new business generation throughout our principal operations, supported by a loyal client base who provide and maintain deposits, borrow and utilise our financial advisory services.

But before commenting further on our performance, it is important for shareholders to understand the emphasis both I and the Board place upon corporate governance. In May 2018, we adopted the Quoted Companies Alliance corporate governance code ("QCA") with which we expect to be fully compliant in our reporting for the year-end statutory accounts. In essence, the code has ten principles to aid investors in their understanding of our Group and to help build and develop long term trust and maximise our relationship with shareholders. As Chairman, it is my responsibility to make a clear statement on corporate governance and the value we place upon this. Our full year accounts will provide a detailed explanation of how we observe the QCA, but meanwhile, I am keen for investors to understand our strategic objectives both in the near and longer term.

Our key objectives for 2018

Your Board's fundamental objective remains that of increasing shareholder value, both in a prudent yet progressive manner. Thus, our strategic concentration is to: -

- Provide the highest quality service throughout our operations to all customers, ensuring that their treatment is both fair and appropriate;

- Adopt a pro-active strategy of managing risk, especially following the implementation of the International Financial Reporting Standard 9 ("IFRS 9") in full. In doing so, we are committed to regularly review our loan book to allow for any credit impairment resulting from observing strict Expected Credit Loss ("ECL") criteria;

- Concentrate on developing our core businesses by considered acquisitions, increased prudential lending and augmenting the range of financial services we offer;

- Implement an enhanced and scalable IT infrastructure to better service the operational requirements of a growing Group without the requirement for a disproportionate increase in headcount;

- Focus on the liabilities side of our balance sheet by introducing a new treasury management function and structure; and

- Manage our balance sheet to exceed, as far as possible, the regulatory requirements for capital adequacy, leading to a 20% year-on-year growth in total assets by 31 December 2018 and thereafter.

We implemented the General Data Protection Regulation ("GDPR") on 25 May 2018. This required changes in policy, procedures and technology across the Group to manage how we process and secure data and protect the rights of individuals. Both our Internal Audit and Compliance teams have reviewed the process and will continue to be involved in making sure that the post implementation requirements continue to be met.

We have also instituted an important new position, that of Head of Risk and Compliance, to enhance and monitor our control functions, ensuring that these meet the highest banking standards and are commensurate with the growth in our operations.

Financial Performance

Our operating income increased by 17.8% to £6.3 million (2017: £5.4 million), despite our net interest income declining by 13.4% to £7.4 million (2017: £8.6 million), as we re-balanced our loan book to reduce our reliance on business with a disproportionate commission element. Our operating expenses have increased by 10.0% to £4.5 million (2017: £4.0 million) following the implementation of enhanced risk management and compliance services, coupled with the introduction of a new deposit system and an on-line capability to service loan applications in a more efficient manner.

As I previously mentioned, from this half onwards, we have adopted IFRS 9 in full. The standard covers classification and measurement for financial instruments and also introduces a new ECL model for a regular review of our financial assets and any requirement for impairment. The purpose of the standard is to show the significance of financial instruments in relation to our financial position and performance, explain the nature and extent of risks arising from those financial instruments, both during the period and at the reporting date and, finally, how we manage those risks. We were confident that we would not suffer a meaningful impairment charge to our Income Statement in adopting the standard.

In the event, and after evaluating each loan, the total impairment came to £0.4 million (2017: £0.2 million) which further demonstrates the robustness of our underwriting criteria. The adoption of IFRS 9 has meant that we are required to restate the 2017 Interim and Final figures and I am pleased to report that the re-statement has resulted in a minimal adjustment and we do not expect this to materially change for the full year.

Jim Mellon
Chairman

At the half year, our total assets now stand at £202.7 million (2017: £174.3 million). The growth of over 17% over the same period last year continues to demonstrate the success of our risk management policies in approving loans. Cash and near-cash currently stand at £64.7 million (2017: £44.3 million), enabling us support the new business growth for further lending opportunities as we expand the regulatory capital base. As a result, shareholder equity has increased by just over 32% to £18.5 million (2017: £14.0 million) as we progressively reduce the legacy of our retained earnings deficit, now standing at negative £2.2 million (2017: negative £5.0 million).

Basic earnings per share are up 18% to 0.93 pence (2017: 0.79 pence) and fully diluted earnings per share are up 46% to 0.76 pence (2017: 0.52 pence). On an annualised basis, our return on equity is now 14%, up from 12% against the corresponding period.

Turning to our principal operating subsidiaries: -

Conister Bank Limited (the "Bank")

The Bank's profit before tax stood at £1.6 million (2017: £0.9 million), an increase of 78%. Total assets have grown by 16% to £194.8 million (2017: £168.9 million). This is an extremely impressive achievement and reflects well on the executive management. New business generation for the first half was up 48% to £13.7 million (2017: £9.3 million) and the pipeline for the rest of the year remains strong. Of particular note is our success within the Isle of Man market, especially loans to local Small and Medium-sized Enterprises. Following the opening of our office in Manchester, the Bank's UK loan book continues to expand, both organically and through the application of Indemnified Wholesale Funding Agreements, providing the Bank with additional security against pre-determined lending limits, and Wholesale Funding Agreements to carefully selected counterparties, again against agreed limits. We continue to limit our exposure to the UK unsecured consumer credit market, recognising the uncertainty inherent in this form of lending.

The Bank's loan book stands at £131.4 million (2017: £123.4 million), a growth of 6% reflecting our move away from lending with excessive commissions payable. The deposit book has increased by 12% to £163.7 million (2017: £146.2 million). Cash available for lending is approximately £62.0 million, against £32.0 million in the first half of last year. Successfully managing this cash is an increasingly important function within the Bank and, to this end, we have inaugurated a new treasury management function to ensure that we take full advantage of interest efficiencies and have protection against any adverse change in interest rates. Following the Group's subscription of an additional £2.0 million in May 2018 to bring the issued share capital to £8.7 million (2017: £6.7 million), the Bank's total equity has increased by 18% to £20.0 million (2017: £17.0 million).

I am pleased to report that the transition to the new deposit system is proceeding smoothly and we have upgraded our lending system to allow for on-line loan applications on a 24/7 basis. Both these initiatives are designed to introduce a level of automation in our operations to allow us to successfully compete with our peers in providing enhanced customer service whilst minimising the need for additional staff.

Importantly, we have invested further in our risk management and compliance functions to maintain the levels of monitoring and control required as our operations expand. The Bank, in line with the rest of the Group, has adopted the QCA code for corporate governance and our compliance with this is regularly reviewed by both our Internal Audit function and by the Audit, Risk and Compliance Committee.

Edgewater Associates Limited ("EWA")

EWA's operating income remains constant at £1.3 million (2017: £1.3 million). Following the final settlement of the acquisition costs of MBL and Lazenby Knox, profit before tax stands at £0.2 million (2017: £0.4 million). The reduction in profit is explained by an additional payment following the higher than expected results of the entities acquired which occasioned a cash top-up to the purchase price under the terms of the purchase agreement. Operating expenses of £1.0 million (2017: £1.0 million) are in line with expectations.

Turning to EWA's Balance Sheet, total assets – including cash of £0.7 million - have grown by 26% to £3.4 million (2017: £2.7 million) and total equity has increased by 35% to £2.3 million (2017: £1.7 million) – reflecting the success of the merger of the acquisitions.

EWA continues to be the largest IFA on the Isle of Man, with managed assets in excess of £300 million and over 13,000 clients supported by 32 members of staff. The executive is to be congratulated in integrating the acquisitions so successfully with minimal client attrition.

Manx FX Limited ("MFX")

MFX has out-performed expectations for the first half, recording a profit before tax of £0.3 million (2017: £0.1 million), an increase of 200% on a fee income of £0.5 million (2017: £0.1 million). Total assets, including cash of £0.3 million, now stand at £0.5 million (2017: £0.2 million) and total equity is now £0.4 million (2017: £0.1 million).

Following this encouraging start to the year, MFX has increased head-count to bolster resilience and allow further business generation and this investment is already producing significant new business.

Outlook

The current uncertainties surrounding the effects of Brexit and potential changes in interest rates will have an impact on credit markets both in the Isle of Man and the UK. Notwithstanding, I believe that the Bank's strategy of asset-backed lending to selected markets will allow us to continue to grow. We are developing new loan products to those entities with significant balance sheets able to both demonstrate affordability and credit resilience.

Jim Mellon
Chairman

In conjunction with this, the Bank continues to seek out suitable acquisitions for our strategy of consolidation, particularly in the UK. So far this year, we have acquired 20% of the issued share capital of Beer Swaps Limited, trading as Ninkasi Brewkit Rentals, a relatively new company financing brewery equipment, together with an option to acquire the remaining shares by April 2021. We have also acquired 30% of the issued share capital of PayItMonthly Limited which provides web-based finance solutions to retailers without the need for them to maintain an onerous compliance resource, allowing their customers the option of spreading repayments over one year, together with an option to acquire the remaining shares after August 2021. Over time, we will continue to build our own introducer network, augmented with specialist staff capable of developing this important aspect of our portfolio.

Now that the businesses have fully integrated, EWA has the potential to grow financial advisory services, not only on the Isle of Man but also within the UK. We continue to review suitable acquisitions capable of increasing profitability. EWA not only has a strong new business pipeline, but approximately half of its income derives from renewals. Our only limitation to this growth is the recruitment of qualified advisors. To counter this, we are concentrating on an internal program of staff development which is proving to be a great success.

MFX also has the potential for further growth and, conversely, has the capability of benefitting from any uncertainties in the financial environment as its clients seek the optimum solutions to meet foreign currency exposures.

Thus, I believe that we are well situated to achieve continued expansion which, in turn, will allow us to meet our 2018 strategic priorities. Whilst our organic growth continues to be excellent, any significant growth in our businesses will require further acquisitions, strategic partnerships and the development of specialist products to meet ever-changing market needs. There are, without doubt, numerous opportunities available to us. Each need assessing in terms of risk profile and subsequent reward. Clearly, those opportunities that utilise technology to the full and fit well within our current operations are of the greatest interest. Meanwhile, we remain well-positioned to reporting further success at the year-end.

Finally, and as always, I would like to thank our shareholders for your continued support, our customers and clients for their loyalty, and also our excellent staff for their outstanding efforts in developing the Group.

Jim Mellon
Executive Chairman
4 September 2018

	Notes	For the 6 months ended 30 June 2018 £000 (unaudited)	Restated for the 6 months ended 30 June 2017 £000 (unaudited)	Restated for the year ended 31 Dec 2017 £000 (audited)
Interest income	2	9,071	10,218	19,893
Interest expense		(1,644)	(1,643)	(3,256)
Net interest income		7,427	8,575	16,637
Fee and commission income		1,781	1,434	3,115
Fee and commission expense		(3,031)	(4,675)	(8,413)
Net trading income		6,177	5,334	11,339
Other operating income		56	32	91
Realised gains on debt securities		24	11	36
Loss on trading assets		(1)	(21)	(21)
Terminal funding	4	54	1	90
Operating income		6,310	5,357	11,535
Personnel expenses		(2,749)	(2,289)	(4,783)
Other expenses		(1,707)	(1,756)	(3,152)
Provision for impairment on loan assets		(365)	(237)	(585)
Depreciation		(72)	(127)	(134)
Amortisation and impairment of intangibles		(114)	(26)	(286)
VAT recovery	9	45	-	65
Change in share of net assets of associate		19	-	38
Profit before income tax		1,367	922	2,698
Income tax expense		(145)	(118)	(240)
Profit for the period / year		1,222	804	2,458
Basic earnings per share (pence)	5	0.93	0.79	2.22
Diluted earnings per share (pence)	5	0.76	0.52	1.74

	Notes	For the 6 months ended 30 June 2018 £000 (unaudited)	Restated for the 6 months ended 30 June 2017 £000 (unaudited)	Restated for the year ended 31 Dec 2017 £000 (audited)
Profit for the period / year		**1,222**	804	2,458
Other comprehensive income:				
Items that will be reclassified to profit or loss				
Debt securities gains / (losses) taken to equity		**10**	(19)	(93)
Items that will never be reclassified to profit or loss				
Actuarial gain on defined benefit pension scheme taken to equity		**-**	-	30
Total comprehensive income for the period / year attributable to Shareholders		**1,232**	785	2,395
Basic earnings per share (pence)	**5**	**0.94**	0.77	2.16
Diluted earnings per share (pence)	**5**	**0.77**	0.51	1.70

As at	Notes	30 June 2018 £000 (unaudited)	Restated 30 June 2017 £000 (unaudited)	Restated 31 Dec 2017 £000 (audited)
Assets				
Cash and cash equivalents		13,148	6,316	9,745
Debt securities	6	51,560	37,936	34,272
Trading assets	7	24	49	24
Loans and advances to customers	8	130,834	123,408	122,546
Trade and other receivables	9	2,125	2,055	1,908
Property, plant and equipment		515	661	450
Intangible assets		2,083	1,364	1,719
Investment in associate		56	-	38
Goodwill	10	2,344	2,344	2,344
Total assets		202,689	174,133	173,046
Liabilities				
Customer accounts		163,715	146,245	142,272
Creditors and accrued charges	11	3,452	3,450	3,164
Loan notes	12	15,971	8,895	8,995
Block creditors	13	415	1,075	751
Deferred tax liability		82	42	42
Pension liability		560	573	560
Total liabilities		184,195	160,280	155,784
Equity				
Called up share capital	14	20,732	18,933	20,732
Profit and loss account		(2,238)	(5,080)	(3,470)
Total equity		18,494	13,853	17,262
Total liabilities and equity		202,689	174,133	173,046

	For the 6 months ended 30 June 2018 £000 (unaudited)	Restated for the 6 months ended 30 June 2017 £000 (unaudited)	Restated for the year ended 31 Dec 2017 £000 (audited)
RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS			
Profit before income tax	**1,367**	922	2,698
Loss on trading assets	**1**	21	21
Change in share in net assets of associate	**(19)**	-	(38)
Gain on disposal of property, plant and equipment	**-**	(3)	-
Depreciation	**72**	127	134
Amortisation and impairment of intangibles	**114**	26	286
Decrease in pension liability	**-**	(41)	(24)
Share-based payment expense	**-**	22	22
(Increase) / decrease in trade and other receivables	**(217)**	9	157
Increase / (decrease) in trade and other payables	**280**	359	(49)
Net cash inflow from trading activities	**1,598**	1,442	3,207
Increase in loans and advances to customers	**(8,288)**	(7,479)	(6,617)
Increase in deposit accounts	**21,443**	20,293	16,320
Cash inflow from operating activities	**14,753**	14,256	12,910

	For the 6 months ended 30 June 2018 £000 (unaudited)	Restated for the 6 months ended 30 June 2017 £000 (unaudited)	Restated for the year ended 31 Dec 2017 £000 (audited)
CASH FLOW STATEMENT			
Cash flows from operating activities			
Cash inflow from operating activities	**14,753**	14,256	12,910
Taxation paid	**(98)**	-	-
Net cash inflow from operating activities	**14,655**	14,256	12,910
Cash flows from investing activities			
Purchase of property, plant and equipment	**(137)**	(83)	(122)
Purchase of intangible assets	**(320)**	-	(213)
Purchase of debt securities	**(17,278)**	(13,964)	(10,374)
Acquisition of MBL and Lasenby Knox business	**(157)**	(74)	(239)
Sale of property, plant and equipment	**-**	17	20
Sale of trading assets	**-**	-	24
Net cash outflow from investing activities	**(17,892)**	(14,104)	(10,904)
Cash flows from financing activities			
Issue of loan notes	**7,226**	450	450
Repayment of loan notes	**(250)**	(100)	-
Increase in share capital	**-**	-	1,799
Repayment of block funding	**(336)**	(315)	(639)
Net cash inflow from financing activities	**6,640**	35	1,610
Increase in cash and cash equivalents	**3,403**	187	3,616
Included in cash flows are:			
Interest received - cash amounts	**9,171**	10,383	19,109
Interest paid - cash amounts	**(1,635)**	(1,590)	(3,152)

	Share capital £000	Retained earnings and other reserves £000	Total £000
Balance at 1 January 2017	18,933	(5,763)	13,170
Retrospective impact on initial application of IFRS 9 (see note 1)	-	(124)	(124)
Restated balance at 1 January 2017	18,933	(5,887)	13,046
Profit for the period	-	809	809
Retrospective impact of applying IFRS 9 to the period (see note 1)	-	(5)	(5)
Other comprehensive income	-	(19)	(19)
Transactions with Shareholders:			
Share-based payment expense	-	22	22
Restated balance at 30 June 2017	18,933	(5,080)	13,853
Restated balance at 1 July 2017	18,933	(5,080)	13,853
Profit for the period	-	1,699	1,699
Retrospective impact of applying IFRS 9 to the period (see note 1)	-	(45)	(45)
Other comprehensive income	-	(44)	(44)
Transactions with Shareholders:			
Issue of shares	1,799	-	1,799
Restated balance at 31 December 2017	20,732	(3,470)	17,262
Restated balance at 1 January 2018	**20,732**	**(3,470)**	**17,262**
Profit for the period	**-**	**1,222**	**1,222**
Other comprehensive income	**-**	**10**	**10**
Balance at 30 June 2018	**20,732**	**(2,238)**	**18,494**

1. Preparation of the interim statements

The financial information included in this interim financial report for the six months ended 30 June 2018 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 2017 and comply with IFRSs and IFRIC interpretations applicable to companies reporting under IFRS as adopted by the EU.

The Group has adopted IFRS 9 'Financial Instruments' as issued by the IASB in July 2014 with a date of transition of 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial assets.

The changes to accounting policies affected the recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as 'IFRS 7: Financial Instruments: Disclosures'.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ended 31 December 2018.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group.

(a) Classification and measurement of financial instruments

IFRS 9 largely retains the existing requirements of IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below:

	IFRS 9 Measurement category (unaudited)	**IFRS 9 Carrying Amount 30 June 2018 £000 (unaudited)**	IAS 39 Measurement category (audited)	IAS 39 Carrying amount 30 June 2017 £000 (unaudited)	IAS 39 Carrying amount 31 Dec 2017 £000 (audited)
Financial assets					
Cash and cash equivalents	Amortised cost	**13,148**	Amortised cost (Loans and receivables)	6,316	9,745
Debt securities	FVOCI – debt instrument	**51,560**	FVOCI (Available for sale)	32,428	28,740
	Amortised cost	**-**	Amortised cost (Held to Maturity)	5,508	5,532
Trading assets	FVPL (Mandatory)	**24**	FVPL (Designated)	49	24
Loans and advances to customers	Amortised cost	**130,834**	Amortised cost (Loans and receivables)	123,408	122,546
Trade and other receivables	Amortised cost	**2,125**	Amortised cost (Loans and receivables)	2,055	1,908

Under IFRS 9, on initial recognition, a financial asset is classified as measured at amortised cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or fair value through profit or loss ("FVPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

Due to IFRS 9 consolidating measurement categories in IAS 39, the Bank has amended its presentation of the condensed statement of financial position to group financial instruments by type and then identify the nature of the instrument within the notes. In previous annual reports, the nature of the financial instruments was identified on the face of the statement of financial position.

In applying IFRS 9 both in the current period and retrospectively in previous periods, there were no reclassifications in the measurement category. As a result, there has been no financial adjustment in transitioning to IFRS 9 with respect to adopting the revised measurement categories.

1. Preparation of the interim statements (continued)

(b) Credit impairments

IFRS 9 significantly overhauled the requirements and methodology used to assess credit impairments by transitioning to a forward-looking approach based on an expected credit loss model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

IFRS 9 outlines a 'three stage' model for impairments based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group. Stage 1 assets have their expected credit loss ("ECL") measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Financial instruments in Stage 2 have their ECL measured based on expected credit losses on a discounted lifetime basis.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Financial instruments in Stage 3 have their ECL measured based on expected credit losses on an undiscounted lifetime basis.

After a detailed review, the Group devised and implemented an impairment methodology in light of the IFRS 9 requirements outlined above. More detailed and prescriptive disclosures will be made in the Group's 2018 annual report, but the key assumptions used in the model are as follows:

- A SICR is always deemed to occur when the borrower is 30 days past due on its contractual payments. If the Group becomes aware ahead of this time of non-compliance or financial difficulties of the borrower, such as loss of employment, avoiding contact with the Group then a SICR has also deemed to occur.
- A receivable is always deemed to be in default and credit-impaired when the borrower is 90 days past due on its contractual payments or earlier if the Group becomes aware of severe financial difficulties such as bankruptcy, IVA, abscond or disappearance, fraudulent activity and other similar events.
- The ECL was derived by reviewing the Group's loss rate and loss given default over the past 8 years by product and geographical segment.
- The Group has assumed that the future economic conditions will broadly mirror the current environment and therefore the forecasted loss levels in the next 3 years will match the Group's experience in recent years.
- For portfolios where the Group has never had a default in its history or has robust credit enhancements such as credit insurance or default indemnities for the entire portfolio, then no IFRS 9 provision is made. As at 30 June 2018, 36.1% had such credit enhancements (30 June 2017: 42.1% and 31 December 2017: 38.5%).
- If the Group holds objective evidence through specifically assessing a credit-impaired receivable and believes it will go on to completely recover the debt due to the collateral held and cooperation with the borrower, then no IFRS 9 provision is made.

Impact of the new impairment model

	£000 (unaudited)
Loss allowance at 31 December 2017 under IAS 39	73
Additional impairment recognised at 1 January 2018 on Loans and Advances to Customers	**174**
Loss allowance at 1 January 2018 under IFRS 9	**247**

(c) Group Auditor's review of the restatement

For the year ended 31 December 2017, the Group's Auditor has audited all figures with the exception of the restatement which has been reviewed prior to issue of these interim statements and will be subject to an audit at 31 December 2018. For the periods ended 30 June 2018 and 2017, the Group's Auditor has reviewed both the figures and the restatement in 30 June 2017.

1. Preparation of the interim statements (continued)

(d) Reconciliation of the primary statements from IAS 39 to IFRS 9

As a result of the change to the Group's accounting policy in regards to credit-impairments, it has restated the previous periods in accordance with IFRS 9. A reconciliation of the primary statements is as follows:

Condensed Consolidated Income Statement

	For the 6 months ended 30 June 2017 £000 (unaudited)	For the year ended 31 Dec 2017 £000 (audited)
Profit for the period / year	809	2,508
Increase to provision for impairment on loan assets	(5)	(50)
Restated profit for the period / year	804	2,458
Reduction in basic earnings per share (pence)	-	(0.04)
Reduction in diluted earnings per share (pence)	(0.01)	(0.03)

Condensed Consolidated Statement of Other Comprehensive Income

	For the 6 months ended 30 June 2017 £000 (unaudited)	For the year ended 31 Dec 2017 £000 (audited)
Total comprehensive income for the period attributable to owners	790	2,445
Increase to provision for impairment on loan assets	(5)	(50)
Restated profit for the period / year	785	2,395
Reduction in basic earnings per share (pence)	-	(0.04)
Reduction in diluted earnings per share (pence)	(0.01)	(0.03)

Condensed Consolidated Statement of Financial Position

	For the 6 months ended 30 June 2017 £000 (unaudited)	For the year ended 31 Dec 2017 £000 (audited)
Assets		
Loans and advances to customers	123,537	122,720
Increase to provision for impairment on loan assets	(129)	(174)
Restated loans and advances to customers	123,408	122,546
Equity		
Profit and loss account	(4,951)	(3,296)
Increase to provision for impairment on loan assets	(129)	(174)
Restated profit and loss account	(5,080)	(3,470)

Condensed Consolidated Statement of Cash Flows

Total cash flows from operating, investing and financing activities remains unchanged due to the increase in impairments on loan assets being a non-cash item.

1. Preparation of the interim statements (continued)

(d) Reconciliation of the primary statements from IAS 39 to IFRS 9 (continued)

Condensed Consolidated Statement of Changes in Equity

For an analysis of the retrospective impact of IFRS 9, see page 8 which analyses in each half year the effect of adopting IFRS 9 for that period.

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 comprising the Isle of Man, UK and Channel Islands. The primary format of business segments is based on the Group's management and internal reporting structure. The Directors consider that the Group operates in five product defined segments in addition to its investing activities: Asset and Personal Finance (including provision of HP contracts, finance leases, personal loans, commercial loans, block discounting, vehicle stocking plans and wholesale funding agreements); Edgewater Associates; Manx FX; Conister Card Services and Manx Incahoot.

For the 6 months ended 30 June 2018	Asset and Personal Finance £000	Edgewater Associates £000	Manx FX £000	Conister Card Services £000	Manx Incahoot £000	Investing Activities £000	Total 30 June 2018 £000 (unaudited)
Net interest income / (expense)	7,764	-	-	-	-	(337)	7,427
Operating income / (loss)	4,925	1,300	472	(60)	10	(337)	6,310
Profit / (loss) before tax payable	1,606	241	332	(61)	(88)	(663)	1,367
Capital expenditure	441	169	3	-	1	-	614
Total assets	194,826	2,460	449	49	276	4,629	202,689

Restated For the 6 months ended 30 June 2017	Asset and Personal Finance £000	Edgewater Associates £000	Manx FX £000	Conister Card Services £000	Manx Incahoot £000	Investing Activities £000	Restated Total 30 June 2017 £000 (unaudited)
Net interest income / (expense)	8,825	-	-	-	-	(250)	8,575
Operating income / (loss)	4,225	1,282	124	(53)	29	(250)	5,357
Profit / (loss) before tax payable	961	401	47	(51)	(98)	(338)	922
Capital expenditure	68	14	-	-	1	-	83
Total assets	169,480	2,024	163	-	404	2,062	174,133

Restated For the year ended 31 December 2017	Asset and Personal Finance £000	Edgewater Associates £000	Manx FX £000	Conister Card Services £000	Manx Incahoot £000	Investing Activities £000	Restated Total 31 Dec 2017 £000 (audited)
Net interest income	16,637	-	-	-	-	-	16,637
Operating income / (loss)	8,523	2,625	447	(104)	44	-	11,535
Profit / (loss) before tax payable	2,293	742	249	(104)	(293)	(189)	2,698
Capital expenditure	254	319	-	-	1	-	574
Total assets	168,052	2,252	181	18	307	2,236	173,046

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. The Board decided 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 2018 £000 (unaudited)	For the 6 months ended 30 June 2017 £000 (unaudited)	For the year ended 31 Dec 2017 £000 (audited)
Interest income	**73**	200	377
Fee and commission expense	**(4)**	(53)	(92)
Provision for impairment on loan assets	**(15)**	(146)	(195)
	54	1	90

5. Earnings per share

	For the 6 months ended 30 June 2018 (unaudited)	Restated for the 6 months ended 30 June 2017 (unaudited)	Restated for the year ended 31 Dec 2017 (audited)
Profit for the period / year (£000)	**£1,222**	£804	£2,458
Weighted average number of ordinary shares in issue	**131,096,235**	102,070,252	110,880,711
Basic earnings per share (pence)	**0.93**	0.79	2.22
Diluted earnings per share (pence)	**0.76**	0.52	1.74
Total comprehensive income for the period / year (£000)	**£1,232**	£785	£2,395
Weighted average number of ordinary shares in issue	**131,096,235**	102,070,252	110,880,711
Basic earnings per share (pence)	**0.94**	0.77	2.16
Diluted earnings per share (pence)	**0.77**	0.51	1.70

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 2018 (unaudited)**	Restated 30 June 2017 (unaudited)	Restated 31 Dec 2017 (audited)
Reconciliation of weighted average number of ordinary shares in issue between basic and diluted earnings per share			
As per basic earnings per share	**131,096,235**	102,070,252	110,880,711
Number of shares issued if all convertible loan notes were exchanged for equity (note 12)	**41,666,667**	61,500,000	41,666,667
Dilutive element of warrants if taken up	**-**	12,155,768	-
Dilutive element of share options if exercised (note 14)	**30,502**	-	-
As per dilutive earnings per share	**172,793,404**	175,726,020	152,547,378
Reconciliation of earnings between basic and diluted earnings per share			
As per basic earnings per share	**£1,222,000**	£804,000	£2,458,000
Interest expense saved if all convertible loan notes were exchanged for equity (note 12)	**£98,075**	£115,075	£196,150
As per dilutive earnings per share	**£1,320,075**	£919,075	£2,654,150

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

6. Debt securities

As at:	30 June 2018 £000 (unaudited)	Restated 30 June 2017 £000 (unaudited)	Restated 31 Dec 2017 £000 (audited)
Financial assets at FVOCI:			
UK Government treasury bills	**51,560**	32,428	28,740
Financial assets at amortised cost:			
Corporate bonds	**-**	5,508	5,532
	51,560	37,936	34,272

UK Government Treasury Bills are stated at fair value and unrealised changes in the fair value are reflected in equity. Corporate bonds were held in a UK banking institution with a Fitch credit rating of "A (stable)" and are carried at amortised cost using the effective interest method, less any impairment losses.

7. Trading assets

Trading assets comprise an equity investment in a UK quoted company which has a mandatory classification of a financial asset at FVPL. 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 condensed consolidated income statement. Dividend income of £350,000 and £24,000 of sale proceeds have been received from this investment since it was made.

8. Loans and advances to customers

As at:	30 June 2018 £000 (unaudited)	Restated 30 June 2017 £000 (unaudited)	Restated 31 Dec 2017 £000 (audited)
Hire purchase	**56,177**	62,349	58,582
Finance leases	**21,108**	16,646	18,987
Unsecured personal loans	**13,906**	8,608	10,266
Vehicle stocking plans	**1,500**	1,455	1,613
Wholesale funding agreements	**9,747**	-	5,830
Block discounting	**17,946**	15,241	13,523
Secured commercial loans	**403**	1,299	655
Secured personal loans	**10,047**	17,810	13,090
	130,834	123,408	122,546

9. Trade and other receivables

As at:	30 June 2018 £000 (unaudited)	Restated 30 June 2017 £000 (unaudited)	Restated 31 Dec 2017 £000 (audited)
VAT claim	**862**	752	817
Prepayments and other debtors	**884**	708	562
Commissions receivable	**325**	489	465
Depositors' Compensation Scheme receivable	**54**	54	54
Monies held in escrow from MBL acquisition	**-**	52	10
	2,125	2,055	1,908

9. Trade and other receivables (continued)

Included in Trade and other receivables is an amount of £862,000 (30 June 2017: £752,000 and 31 December 2017: £817,000) 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 Bank'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 £230,000 and an amount of £175,000 accrued for periods Q2 2016 to Q2 2018.

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 ("ECJ"). The Attorney General's opinion has been issued which further supported the Bank's claim, but awaits the full ECJ hearing.

The Bank's total exposure in relation to this matter has increased to £975,000, 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). Based on 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 2018 £000 (unaudited)**	30 June 2017 £000 (unaudited)	31 Dec 2017 £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 2018 £000 (unaudited)**	30 June 2017 £000 (unaudited)	31 Dec 2017 £000 (audited)
Commission creditors	**1,714**	2,268	2,042
Other creditors and accruals	**1,383**	957	774
Taxation creditors	**355**	225	348
	3,452	3,450	3,164

12. Loan notes

As at:	Notes	30 June 2018 £000 (unaudited)	30 June 2017 £000 (unaudited)	31 Dec 2017 £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	250
		3,410	3,660	3,660
Unrelated parties	UP	**12,561**	5,235	5,335
		15,971	8,895	8,995

JM – Two loans, one of £500,000 maturing on 31 July 2022 with interest payable of 5.0% per annum, and one of £1,250,000 maturing on 26 February 2020, paying interest of 6.5% per annum. The loans are convertible at the rate of 7.5 pence and 9 pence respectively.

BL – One loan consisting of £1,200,000 maturing on 31 July 2022 with interest payable of 5.0% per annum. Jim Mellon is the chairman and beneficial owner of BL and Denham Eke is a director. The loan is convertible at a rate of 7.5 pence.

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. Arron Banks is the beneficial owner of SR. John Banks, a Non-executive Director, is a director of SR.

LS - One loan of £250,000 matured on 3 January 2018 with interest payable of 5.0% per annum. Denham Eke is a director of LS.

UP – Thirty four loans consisting of an average £369,441, with an average interest payable of 5.4% per annum. The earliest maturity date is 2 July 2018 and the latest maturity is 30 May 2023.

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 2018 £000 (unaudited)	30 June 2017 £000 (unaudited)	31 Dec 2017 £000 (audited)
Drawdown 2 – repayable 25/07/2018, interest payable at 5.6%	**15**	172	95
Drawdown 3 – repayable 29/03/2019, interest payable at 6.3%	**400**	903	656
	415	1,075	751

14. Called up share capital

Ordinary shares of no par value available for issue	Number
At 30 June 2018, 31 December 2017 and 30 June 2017	200,200,000

Issued and fully paid: ordinary shares of no par value	Number	£000
At 30 June 2017	102,070,252	18,933
At 30 June 2018 and 31 December 2017	**131,096,235**	**20,732**

There are four convertible loans totalling £3,410,000 as at 30 June 2018 (30 June 2017: £3,410,000 and 31 December 2017: £3,410,000) with no remaining warrants to exercise (30 June 2017: 28,333,333 and 31 December 2017: nil). See note 12 for further details. There are no outstanding warrants in issue at 30 June 2018 (30 June 2017: 36,666,666 and 31 December 2017: nil).

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. The period of grant is for 10 years less 1 day ending 22 June 2024. Of the 1,750,000 share options issued, 1,050,000 (30 June 2017 and 31 December 2017: 1,050,000) remain outstanding with the balance lapsed.

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

There were no significant post balance sheet events.

18. Approval of interim statements

The interim statements were approved by the Board on 4 September 2018. 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, including corporate governance observance, and contact details.

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